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THESIS

**BUILDING UP A STRATEGY FOR DE-BALKANIZING
THE BALKANS: STABILITY AND PROSPERITY IN
SOUTH EASTERN EUROPE**

by

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December 2002

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**BUILDING UP A STRATEGY FOR DE-BALKANIZING THE BALKANS:
STABILITY AND PROSPERITY IN SOUTH EASTERN EUROPE**

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ABSTRACT

Three years after the Kosovo conflict, the Balkans remains politically and socially unstable as well as economically depressed. Even though Slobodan Milosevic has gone, he has left behind him a legacy of destruction and distrust. The mechanisms, instruments, and models of international relations that provide a framework for producing security and promoting development such as creation of alliances, diplomacy, and models of security communities, did not produce the expected results. Therefore, a high potential for renewed conflict remains acute. Across the Balkans, integration and stability are still in their infancy due to strong nationalism and under-performing economies. Taking into consideration that complex crises such as that in the Balkans usually have their origin in long-term circumstances, it is understandable that investigating the long-term, deep historical roots of a conflict is important in identifying possible solutions. One of the main reasons that Western Powers adopted a reluctant attitude towards the Balkans crises, or did too little too late, was misunderstanding the nature and the origin of the conflicts from the beginning. Without knowing where the region is coming from, it is impossible to construct where the region should be heading. This thesis outlines a brief history of the region that provides the context for the current situation. It demonstrates the impact of ethnicity, religion, language, culture, and economics in shaping the conflicts in the Balkans. Furthermore, it analyzes the current security and economic situation in the region. Finally, it provides some security and economic recommendations, which offer guidelines for implementing what the author considers the right path for de-Balkanizing the Balkans.

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I. INTRODUCTION

A. GENERAL

This is the Balkans—rationality isn't a reliable compass.¹

Three years after the Kosovo conflict, the Balkans remains politically and socially unstable as well as economically depressed. The mechanisms, instruments, and models of international relations that provide a framework for producing security and promoting development, such as creation of alliances, diplomacy, and models of security communities, did not produce the expected results. Even though Slobodan Milosevic is gone, he has left behind him a legacy of destruction and distrust. Therefore, a high potential for renewed conflict remains. Across the Balkans, integration and stability are still in infancy due to strong nationalism and under-performing economies.

The past decade of wars and transition has been exceptionally difficult for the people of the Balkans. Two major factors, nationalism and economic decline, which fed off each other, are mainly responsible for the dramatic situations that arose in the Balkans. The absence of political consensus for reform constrained economic development and served as a motivation for overwhelming nationalism. This nationalism, with ethnic purity as its chief goal, has deep-seated resentments. Even though there are clearly differences in the security situations of the individual countries, the region as whole is unstable and insecure. Post-conflict construction initiatives have not solved the security tensions and it seems that the most successful businesses in the region are organized crime and trafficking of drugs, human beings, and weapons.

In the aftermath of the Kosovo conflict the international community launched the Stability Pact as a new major effort for de-Balkanizing the Balkans to the point where, according the inauguration speech of Finnish President Ahtisaari, “war becomes unthinkable.”² However, the Macedonian crisis, which reached the boiling point on June

¹ Roger Thurow and Toni Horwitz, *History's Lessons*, The Wall Street Journal, October 7, 1992, p. A1.

² In the Sarajevo Summit, 29/30 July 1999, the international community launched the Stability Pact. The summit was chaired by Finnish President Ahtisaari because Finland held the rotating presidency of the European Union. Information Available online: www.summit-sarajevo-99.ba/index1.htm.

01, showed that the Stability Pact has been slow to advance from conferences to concrete commitment. Thus, confrontation still seems to be an easier option than cooperation.

Taking into consideration that complex crises such as that in the Balkans usually have their origin in long-term circumstances, it is understandable that investigating the long-term, deep historical roots of a conflict is important to identifying the possible solutions. One of the main reasons that Western Powers adopted a reluctant attitude towards the Balkans crises, or did too little too late, was misunderstanding the nature and the origin of the conflicts from the beginning. Without knowing where the region is coming from, it is impossible to construct where the region should be heading.

B. THESIS ORGANIZATION

In the first chapter of the main body (Chapter II), I outline a brief history of the region to provide the context for the current situation. In Chapter III, I demonstrate the impact of ethnicity, religion, language, culture, and economics in shaping the conflicts in the Balkans. In Chapter IV, I analyze the recent roots of conflicts. First, this chapter is about the impact on the Balkans of the disintegration of international order. Second, it explains the relationship between economic decline and the rise of nationalism, and their combined effect on the conflicts in the Balkans. In Chapter V, I examine the current economic situation of the region. Further, in this chapter, I analyze and demonstrate lessons learned from the deep political and economic crises in Albania. This chapter also demonstrates the key economic and security challenges that the region is facing. Finally, in Chapter VI, I provide some economic and security recommendations, which offer guidelines for implementing what I consider to be the right path of direction for de-Balkanizing the Balkans.

My intention is not only to draw attention to all the domestic and international actors who want to assist the Balkan but also to provide some possible directions for more sustainable actions to take for the integration of the region into a prosperous and stable Europe.

C. DEFINITIONS

1. South Eastern Europe

For the purpose of this thesis, South Eastern Europe or the Balkans include Bulgaria, Croatia, Rumania, Kosovo, Bosnia and Herzegovina, Serbia and Montenegro, and Albania. Slovenia's progress over the last decade has left this country out of the group of countries that are considered as problematic. Greece is considered a de-Balkanized country.

2. Balkanization

The expression "balkanization" appeared in the aftermath of the First World War. Balkanization is the process of nationalist fragmentation of former geographic and political units into new, viable but problematic and unstable units such as the Balkans during the Balkan wars 1912-13.³

3. Ethnicity

A collective name, a common myth of descent, a shared history, a distinctive shared culture, an association with a specific territory, and a sense of solidarity are all dimensions of *ethnie*.⁴ Thus, ethnicity is a matter of myths, memories, values, and symbols which reinforce the differences between groups. This definition establishes two important elements for understanding ethnic identity. First is determining who cannot belong to the group. Second is the fact that ethnic identity is framed in a context, where ethnic groups view a gain by another group as their loss. Compromises, therefore, is viewed as a sign of weakness.⁵

³ Maria Todorova, *Imagining the Balkans*, Oxford University Press, 1997, p. 33.

⁴ Anthony D. Smith, *The Ethnic Origins of Nations*, Blackwell, Oxford UK & Cambridge USA, 1987, pp. 20-23.

⁵ William T. Johnsen, *Deciphering The Balkan Enigma: Using History to inform Policy*, Strategic Studies Institute, 1995, p. 5.

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II. A BRIEF HISTORY OF THE BALKANS

What these nations are now depends on where they were when.⁶

The Balkans has been shaped by a unique history. Like no other part of the continent, it was ruled for two millennia by a series of multinational empires. These multiethnic empires generated a mosaic of peoples, languages, religions, and cultures that has been a unique source of perpetual conflicts. Taking into consideration that an understanding of the past has a great importance for informing the present and for preparing the future, it is clear that to predict where the Balkans should be heading requires knowing where it came from.

In this chapter, I will first demonstrate the impact of geography on the history of the Balkans.⁷ I will also demonstrate that since ancient Greece and Rome up to the present, with the exception of the communist regimes, conflict has been a way of life along the Balkans' countries.

A. THE IMPACT OF GEOGRAPHY ON THE BALKANS' HISTORY

The word "Balkan" means mountain in Turkish. The Balkans is appropriately named because mountains represent the predominant characteristic of the region. In any relief map of the Balkans, three main mountain ranges can be identified: (1) The Carpathian Mountains in Romania run south of the Danube in northeast Serbia and northern Bulgaria, (2) The Balkan and Rhodope Mountains in Bulgaria surround the Maritsa Valley of Bulgaria and trend toward the northwest to cross the Morava-Vardar depression in former Yugoslavia, (3) The Dinaric Alps of Yugoslavia and Albania trend southeast of the Julian Alps up to the mouth of Drin River and continue inland along the Albano-Yugoslav borderlands.⁸ The great mountain chains not only fragmented the region geographically and, therefore, isolated the people from one another, but they also

⁶ Morris Massey, *The People Puzzle: Understanding Yourself and Others*, Reston, VA: Reston Press, 1979.

⁷ The geographic character of the region has had a key influence on the evolution of ethnic, cultural, and national groups of the area and, therefore, had a great impact on the Balkans' development. Thus, before investigating the region's history, a short journey into its geography is helpful.

⁸ George W. Hoffman, *The Balkans in Transition*, D. Van Nostrand Company, Inc. Princeton, New Jersey, 1963, p. 12.

contributed to the ethnic, cultural, and political divisions. “Lacking a geographic center, the peninsula became divided into a number of small states which were generally in conflict with one another.”⁹

However, the historic paradox of the region lay in the fact that the mountains served as a barrier only to the settled inhabitants while, on the other hand, promoting external access to the region. Unlike the Italian peninsula, cut off from continental Europe by the Alps, the Balkan Peninsula lies open to the north providing an easy access from central Europe.¹⁰ Lying between Asia Minor and the Mediterranean Sea to the east and south and the abundant European plains to the north and west, three main invasion routes divide the Balkans. The north-south route runs from Belgrade to Thessalonica. The east-west route runs from Morava through Sofia to Constantinople. In addition to these main routes, the Romans built a great road, called *Via Egnatia*, which begins in Durazzo on the Adriatic coast of Albania and moves across Albania and Northern Greece terminating in Constantinople. Thus, the Balkans, considered from the outside, is a substantial bridge connecting east and west. It is at a crossroads where Christianity meets Islam and where the great roads from the Middle East and Africa go through Europe.

Because of the synergistic impact of the two aspects, inner fragmentation and external access, the Balkan countries were uncommonly subject to external effects. On the one hand, the inhabitants were not able to gather together to resist outside pressure; on the other, foreigners could easily enforce their will. Therefore, the peoples of the Balkans, separated from each other and divided among themselves, were intensely affected by the political, religious, cultural, and economic influences which derived from the great centers of Europe.¹¹ The great imperial powers of the past—Romans, Turks, Austrians, Germans, French, British, and Russians—all have dominated or sought to dominate this region. Thus, the geography made its inevitable contribution to the Balkans’ history.

⁹ Charles Jelavich and Barbara Jelavich, *The Balkans*, Englewood Cliffs, NJ: Prentice-Hall, 1965, p. 3.

¹⁰ Robert Lee Wolff, *The Balkans In Our Time*, Harvard University Press, 1956, p. 19.

¹¹ *Ibid*, p. 20.

B. A BRIEF HISTORICAL OUTLINE

1. Ancient Macedonian and Rome

The recorded history of the Balkans begins with ancient Macedonia. Taking advantage of Greek weaknesses, Philip of Macedon defeated the Greek armies and established Macedonian domination in the region.¹² After the death of Philip, his son, Alexander the Great, successfully expanded his empire through invasions southward through Egypt and eastward through Persia to India. After Alexander's early death, his successors proved unable to sustain his empire which collapsed under internal strife and war.¹³ Ingredients of the empire gradually declined and expansionist ambitions of Rome were definitely realized in 146 B.C. by the entire region. For around four centuries, the conflicts were still present in the region because of Roman invasions and defense of their Empire.¹⁴

2. Byzantine Empire (from the Fourth Century to the Fifteenth)

Being under increasing pressure, mostly from barbarian invasions coming from western and central Europe, the Roman Emperor Constantine, on the 11th of May in the year A.D. 330, dedicated the Greek city of Byzantium (currently Istanbul) as the new capital of the Roman Empire.¹⁵

Divisions between the eastern and western parts of the empire increased rapidly. "By A.D. 395, the Roman Empire cleaved in two with the border cutting across modern day Croatia and Bosnia-Herzegovina."¹⁶ While the Germanic barbarians were kept out of the eastern part of the Empire, they fell in all their force upon the western part. After the collapse of the western part of the Empire (in the fifth and sixth centuries), the Byzantine Empire emerged as a major power in the world theater.

¹² The century-long conflicts between Athens and Sparta for control on the Greek peninsula [the Peloponnesian Wars (460-404 B.C.)] seriously undermined the Greek city-states. Barbara Jelavich, *History of the Balkans, Vol. I, Eighteenth and Nineteenth Century*, New York: Cambridge University Press, 1983, pp. 5-7.

¹³ Ibid, p. 7

¹⁴ For a brief discussion of the wars and conflicts of the Roman Empire, see Dupuy and Dupuy, *The Encyclopedia of the Military History from 3500 B. C. to the Present*, New York: Harper and Row, 1986, pp. 85-125.

¹⁵ Robert Lee Wolff, *The Balkans In Our Time*, p. 50.

Even though the Byzantine Empire kept control of the Balkans until 1453, when the Turks finally took over the Byzantium, the Bulgar and Slav disturbance seriously threatened it in the northern part. The Byzantine Empire brutally resisted the Bulgar encroachments. Slavery or entire eradication was the destiny of the defeated. For instance, the Byzantine Emperor, Basil the Bulgar-Slayer, not happy with annihilating his opponents, “had 14,000 captives blinded and sent home as an example.”¹⁷ In the ninth century, the Bulgarian ruler defeated the Byzantine Emperor Nicephorus I, killed him and took his skull, which was hollowed out and lined with silver to use as a drinking cup.¹⁸

After fighting with the Roman Catholic west over the south Italian lands, the Byzantine Empire, in the beginning of the thirteenth century, fought against the Serbs, who now rose to create their own powerful state. The sudden death of Stephen Dushan, the Serbia’s most famous ruler, shifted the fate of the war on the side of the Byzantine Empire. Thus, a continual character of violence shaped the relationship of the Byzantine Empire with the Balkans’ provinces.

Despite pressure from the north, the more critical threat rose from the east, where Arabs, Persians, and Ottomans attacked Byzantium.¹⁹ The Ottomans successfully surround and captured Constantinople in 1453, replacing over 1000 years of Byzantine rule in the Balkans.

3. Ottoman Empire (from the Fifteenth Century to the Eighteenth)

The fall of Constantinople marked the definite realization of the conquest of the Balkans. The suppressive nature of the Ottoman Empire made violence and cruelty commonplace in the Balkans. “The staking of heads and impalement were regular methods of public control.”²⁰ It is understandable that oppressive measures used by

¹⁶ William T. Johnsen, *Deciphering the Balkan Enigma: Using History to Inform Policy*, Strategic Studies Institute, 1995, p. 13.

¹⁷ Ibid, pp. 12-13.

¹⁸ Robert Lee Wolff, *The Balkans In Our Time*, p. 52.

¹⁹ In the middle of the fourteenth century, one of the parties to the competition for the Byzantine throne invited the Turks as mercenaries into Europe. They campaigned successfully first against Bulgaria and after against Serbia and Bosnia and Herzegovina. The Turks were blocked in their campaign against Albania from the resistance of George Castriota, an Albanian national hero, who won from the Pope the epithet “athlete and battler for the Christian name,” Ibid, pp. 56-58.

²⁰ Barbara Jelavich, *History of the Balkans, Vol. I*, p. 232.

Ottomans led to numerous uprisings. Thus, revenge brought revenge in a growing spiral that shaped the relationship between the Ottomans and the Balkans throughout the Ottoman occupation. The repressive Ottoman rule forced many peasants in the Balkans' countries to take the mountains and organize a social and political resistance. Throughout the Balkans' history, the *Hajduk* (as he is known in former Yugoslavia) has been a hero of popular legends and songs. The *Hajduk*, a Balkan Robin Hood, kept alive the hope of the Christians, and formed a significant element in the wars of liberation. Here can be found the roots of the long traditions of resistance against governments or outsiders. This tradition continued with the numerous ethnic and religious irregular forces that came out during the last decade's conflicts.²¹

Two factors figured prominently in the continuous presence of violence in the Balkans for the next six centuries (from fourteenth to nineteenth): (1) the process of destroying the Balkan states and the former social order, launched by the Turkish conquests, and (2) the ebb and flow of the Ottomans wars to expand their empire into central Europe. The conflicts among the powerful states of Europe permitted the continuation of Muslim control over the Balkans even when the Ottoman Empire itself was in decline. In every period of its domination, the Ottoman Empire was able to find allies among the European powers who wanted to use it as a counterbalance against a strong opponent. The attempts of France to exploit the Ottoman Empire, first against the Habsburg Empire and later (in the eighteenth century) against Russia, gave the Ottoman Empire a role in the European balance-of-power system.²²

The clash between the Ottoman and the Habsburg Empires dominated life in the Balkans until the early twentieth century. Considering that the current border between Slovenia and Croatia was the dividing line between the military frontiers of the Habsburg and Ottoman Empires, it is understandable that conflict was a way of life in this area. The Turkish defeat outside Vienna in 1683 marked the beginning of the Ottoman Empire's decline in the Balkans. Thus, under the terms of the treaty of Karlowitz (1699),

²¹ Thus, the idea of the lone fighter against tyranny and the glorification of guerrilla warfare, which appear again in the current Balkans' conflicts, have a long tradition in Balkan history. William T. Johnsen, *Deciphering the Balkan Enigma: Using History to Inform Policy*, p. 14 and Vladimir Dedijer, Ivan Bozic, Sima Cirkovic, and Milorad Ekmečić, *History of Yugoslavia*, New York: McGraw-Hill, 1974, pp. 192-193.

²² At this time, France attempted to unite Turkey, Poland, and Sweden into a diplomatic front outside the Habsburg Empire. Charles Jelavich and Barbara Jelavich, *The Balkans*, Englewood Cliffs, p. 34.

the Ottomans lost Croatia, Transylvania, and Slovenia.²³ Toward the end of the seventeenth century, Russia appeared as the great threat to the Ottoman Empire, and the long series of Russo-Turkish wars continued up to the end of the nineteenth century. The Habsburg advances and the Russian emergence on the scene deeply affected the countries of the Balkans. In the eighteenth century, commencing with the reign of Peter the Great, the Russian government declared itself the sponsor and protector of Balkan Orthodox Christianity. The policy of encouraging Balkan revolt against Ottoman rule, inaugurated by Peter the Great, was carried on by his successors. As a result, the Balkans peoples, being under the influence of the Habsburgs and Russians, began to be integrated to the contemporary European currents of thoughts. By the last half of the eighteenth century, national feeling awakened throughout the Balkan countries.²⁴ The French Revolution brought a new spirit to Europe and the ideology of the time provided a theoretical justification to Balkan nationalist activity and violence. "The first Balkan revolution against the Ottoman Empire was that of the Serbs. Serbia seethed in revolts from 1804-13 and again from 1815-17, winning partial autonomy."²⁵ It was followed by the Greek revolution in 1821, led by Ypsilanti, which had as the outcome an independent Greek kingdom. The successful Serb and Greek revolutions and the continuous failed revolts of 1821 in Romania and, in 1834, 1849, 1850, 1853, and 1876 in Bulgaria, which resulted in harsh brutality, sustained the traditional pattern of violence in the area.²⁶

The revolutionary ferment in the Balkans was a mixture of the emphasis on the past and on the nation (inspired from the French Revolution and later on from German romanticism). This ran into conflicts with the politics of the great powers, which feared its international implications. The chief and permanent concern of the European powers was not the fate of the Balkans countries, but fear that a break up of the Ottoman Empire would result in an extension of Russian power. Thus, the pragmatic policy of the Great Powers of supporting the status quo extended the Ottoman Empire for an extra century

²³ Leften Stavros Stavrianos, *The Balkans Since 1453*, New York: Rinehart and Co., Inc., 1958, p. 22.

²⁴ Robert Lee Wolff, *The Balkans In Our Time*, p. 70.

²⁵ William T. Johnsen, *Deciphering the Balkan Enigma: Using History to Inform Policy*, pp. 15-16, Vladimir Dedijer, Ivan Bozic, Sima Cirkovic, and Milorad Ekmecic, *History of Yugoslavia*, New York: McGraw-Hill, 1974, pp. 266-275.

²⁶ Vladimir Dedijer, Ivan Bozic, Sima Cirkovic, and Milorad Ekmecic, *History of Yugoslavia*, pp. 266-275, and Charles Jelavich and Barbara Jelavich, *The Balkans*, pp. 44-57.

after 1815. However, three specific international situations further heightened the tensions as the Ottoman and Habsburg Empires continued to disintegrate. These situations were: (1) Creation of the German nation-state (1871), which dominated the Central Europe after 1871. (2) The Treaty of San Stefano (March 1878). (3) The Congress of Berlin (June 1878).

With the creation of the Italian and German nation-states, the area was under the penetration of the new powers.²⁷ The penetration of the new powers into the region was, as expected, opposed by Britain, Russia, and France. In fact, France and Great Britain did not see any advantage to supporting the expansion of Austria or Russia at the expense of the Turks. However, it was the great Balkan crises of 1875-1878 that culminated in another Russo-Turkish war and shaped the decisions of the Treaty of San Stefano and the Congress of Berlin. The uprising started in Bosnia as a movement against the Ottoman tax-collectors, and soon spread to Bulgaria. Serbia and Montenegro entered in the war against Turkey. This occurred when the Russian Pan-Slav movement was at its height (1875-1878). Thus, when the Turks were defeating the Serbs, Russian aid and volunteers poured into Serbia.²⁸ England could not help Turkey against the Russia this time as she had done in the Crimean War because the Liberal Party made a political issue of the Turkish massacres against the Bulgarians, tying the hand of Disraeli's Conservative government. Thus, the Russians entered the war aware of England reluctance and having guaranteed Austrian benevolent neutrality by promising Bosnia and Herzegovina.²⁹ The Turks were defeated, and on 3 March 1878 in the Treaty of San Stefano, the Turks agreed

²⁷ During the 1870s and later, central Europe was growing up. After the wars of unifications, Germany was able to become a nation-state. Utilizing the nationalistic rallying point of a common enemy, France, and emphasizing the lands considered German outside the German mini-states, Otto von Bismarck successfully used the overwhelming public support in favor of unification to create Germany in 1871. The Italian approach to a national state followed a similar path. Thus, it was the emergence of two new powers that brought a revolution to European affairs. Hagen Schulze, *States, Nations, and Nationalism. From the Middle Ages to the Present*, Blackwell Publishers Inc, 1996, pp. 220-230.

²⁸ The sense of missions produced by integral nationalism was common to all European Europe. That applied even to Russia, whose thrust in the direction of Asia and the Indian Ocean was shadowed by the vision of an Empire of all the Slavs under Russian leadership. This would serve as a barrier to Germany and Austria expansion to Balkan. Hagen Schulze, *States, Nations and Nationalism from the Middle Ages to the Present*, p. 256.

²⁹ Even though Russia was determined to wage war with Turkey, it was concerned about not repeating the mistakes of the Crimean war—to fight Turkey while having all Europeans against it. Thus, among the others, Russia negotiated with Austro-Hungary and promised Bosnia and Herzegovina. Serbia and Montenegro would serve as a buffer zone between the Russian and Austro-Hungarian Armies. Alan J. P. Taylor, *The Struggle for Mastery in Europe: 1848-1918*, Oxford: Oxford University Press, 1957, p. 242.

to recognize Serbia and Rumania as independent. The Russian took back southern Bessarabia, which had been awarded to the Romanians after the Russian defeat in the Crimean War. Most important, the San Stefano treaty provided for the creation of a large autonomous Bulgaria, including most of the Macedonia. The powers, especially England, were certain the new state would be a mere Russian satellite. Thus, at the Congress of Berlin, the powers of Europe modified the Treaty of San Stefano, not only giving back to Turkey the Macedonian part, but also dividing the rest of Bulgaria into two provinces.³⁰ However, the frontiers of San Stefano became an ideal after which several generations of Bulgarian politicians deeply yearned.

The Berlin settlement on June 1878 left the Russians deeply disappointed at having fought a severe war for relatively nothing. If the Congress was a defeat for Russia, neither it was a complete success for Austria-Hungary (the Hapsburg mandate over Bosnia and Herzegovina angered Serbia and Montenegro and provoked the crises of 1908 and 1914), nor for Great Britain (Turkey was ceased as a Great Power and, therefore, a neutral barrier between Russia and Great Britain was eliminated).³¹ Thus the Congress of Berlin, from a macro perspective, exposed the Balkans as a central arena for Great Power competition in Europe.

The Congress of Berlin closed the first phase of the Balkan national liberation. Four states—Serbia, Rumania, and Bulgaria—were established. However, each of them had further territorial aims and, therefore, the Congress settlement considerably increased the antagonism and hostility between the Balkan peoples. The Serbs were deeply opposed to the Habsburg mandate over Bosnia and Herzegovina, while Romania felt cheated at giving up southern Bessarabia. Even though Serbia and Montenegro maintained their independence, they lost territories gained in the Treaty of San Stefano. The Berlin settlement awarded to Montenegro substantial areas whose population was in

³⁰ The Russians were not able to fight another war. This was a great element which England exploited to the fullest. Thus, Russia agreed to give up “Big Bulgaria of San Stefano”, Alan J. P. Taylor, *The Struggle for Mastery in Europe: 1848-1918*, p. 249.

³¹ In the nineteenth century, Britain had been the chief supporter of the Ottoman Empire and the main opponent of Balkan Nationalism, Ibid, pp. 252 -3.

fact Albanian.³² Thus, the Congress of Berlin, from a micro perspective, left a legacy of dissatisfaction throughout the Balkan region.

In sum, even though the Congress of Berlin was followed by thirty-four years of peace for the major part of Europe, for the Balkans the period after the Congress was characterized by further tensions and conflicts.³³ According to the noted European historian Carlton J. H. Hayes, ‘If before 1878 the ‘Eastern Question’ concerned one ‘sick man’, after 1878 it involved a half-dozen maniacs. For the Congress of Berlin drove the Balkan peoples mad’³⁴

4. The Balkans before World War I

Russia and Austria-Hungary were the great powers most directly involved in the area. The increasing competition between Austro-Hungary and Russia for the domination of the Balkans countries characterized the decade prior to the First World War. The Austrian intention to build a railroad through Novipazar, which would have secured to the Monarchy a channel running between Serbia and Montenegro, incited the Russians to project a railroad running from Danube to Adriatic. Even though nothing was realized in reality, these developments increased Balkan tensions.³⁵

Taking into consideration that the Habsburg Monarchy was focused on its domestic problems and Russia at the end of nineteenth century was looking toward the Far East, it was in the interest of both governments to reach an understanding for maintaining the status quo in the area. In April 1897, Franz Josef and Nicholas II therefore reached an agreement to keep under control the Macedonian question.³⁶ However, the increasing nationalist passions to free the region from the Ottoman control, and their desire for outside intervention, in October 1903 obligated Franz Josef and Nicholas II to meet at Mürzteg. They approved a program that offered, among the others,

³² William T. Johnsen, *Deciphering the Balkan Enigma: Using History to Inform Policy*, p. 17.

³³ An unsuccessful revolt racked Albania in 1880, the war between Serbia and Bulgaria in 1885, and the war between Turkey and Greece in 1897.

³⁴ Carlton J. H. Hayes, *A Generation of Materialism, 1871-1900*, New York: Harper, 1941, p. 33.

³⁵ Robert Lee Wolff, *The Balkans In Our Time*, p. 89.

³⁶ In the late nineteenth century, five states had demands toward Macedonia—Bulgaria, Albania, Greece, Romania, and Serbia. Thus, Macedonia was an exploiting point. Barbara Jelavich, *History of the Balkans, Vol. II, Twentieth Century*, New York: Cambridge University Press, 1983, pp. 90-94.

a gendarmerie under great-powers control. “Russian, Austrian, French, Italian, and British zones were created, and the Germans took over the task of inspection of the schools.”³⁷ Thus, after 1903 the remaining area of the Ottoman Empire in Europe became not only a scene with increasing nationalist spirit and rivalry of the liberated nationalities, but also the subject of Great Power’s intervention to prevent peace.³⁸

In the key year 1908, the Young Turk revolution took place in the region, which led to a very short period of good feelings between the Turks and the countries under their subject. When the Young Turks showed their nationalist tendency, nationalist passions of the Balkans’ countries, still under their domination, reached a fever peach. Having secured for the Germany’s backing, the Austrian Monarchy took advantage of the crises to annex the provinces of the Bosnia and Herzegovina. Experiencing increasing difficulty in keeping pro-Serbian agitation in the territories under control, and being strongly backed by Germany, Austria declared its annexation of Bosnia and Herzegovina on 5 October 1908. Thus, Austria strengthened her position in the Balkans without providing for Russia any compensation. Besides the political considerations, the military situation allowed Austria to annex the two provinces without having a diplomatic consensus in Europe.

“The conditions of the Russian army left St. Petersburg completely incapable of deterring any Austria-Hungarian action backed by Germany.”³⁹ Russia also was obliged to back down because the French and British were unwilling to plunge into a war for the sake of Serbia. The Paris linked the financial loan to Russian railway construction with the requirement that Russia not to go in war in 1909.⁴⁰ Thus, in the last week of March, the Russian government recognized the annexation of Bosnia and Herzegovina.

From the Austrian perspective, this act would end Serbs dreams of adding the two provinces to their national state. In fact, the annexation of Bosnia and Herzegovina in

³⁷ Robert Lee Wolff, *The Balkans In Our Time*, p. 88.

³⁸ The activities of the terrorist organizations as “Unions of Death” in Serbia or the Internal Macedonian Revolutionary Committee infinitely complicated the situation in the region. Charles Jelavich and Barbara Jelavich, *The Balkans*, Englewood Cliffs, p. 76, and Barbara Jelavich, *History of the Balkans*, Vol. II, p. 95.

³⁹ Ibid, p. 116.

⁴⁰ Ibid, pp. 119-120.

place of solving the South Slav problem aggravated it more. Austria had great difficulties in ruling these two provinces because the Slavs were opposed to the annexation.

Humiliated in the Bosnian case, Russia was strongly engaged to establish a front of the Balkans' countries against the Habsburg Monarchy. In fact, the Russia's intend was not the final partition of the Ottoman's remaining lands in the region. However, the Balkans countries, being encouraged from Bulgaria full independence (the Austrian Monarchy arranged that at the same time of the Bosnia annexation Prince Ferdinand of Bulgaria would proclaim his full independence from Turkey), concluded a series of agreement that were beyond the Russian's control.⁴¹ Even though the Russian and Habsburg Monarchy, acting for all of the powers, wanted to prevent the war, their intervention came too late.⁴² Serbia, Bulgaria, Greece, and Montenegro, for the first time linked in an alliance, which at the core had their ambitions to occupy portions of the helpless Macedonia, launched a military action against the Ottoman Empire in the early autumn of 1912. Considering that the Ottoman military power had been weakened by the domestic political controversies and the financial problems, the victory over the Ottoman army was achieved relatively easy.⁴³ However, the main problem faced by the coalition was not to defeat the weak Ottoman Empire, but that of drawing borders between each others.

Possessing aspiration with relation to territories that could be satisfied only at the expense of the others, the victorious allies soon fell in an internal strife over the division of Macedonia and Albania. Having grievance with Greeks over the owning of Salonica, which was occupied by Greece, and facing the Serb's insistence of keeping their share over Macedonia, Bulgaria attacked Greece and Serbia. Thus, the Balkan League collapsed and the war broke among the allies in June 1913. Being supported by

⁴¹ It was a time when powerful forces of nationalism were mixed with the dreams of new glories that shaped the leadership's minds of the newly established Balkan countries. Moreover, the political leaders of the newly created Balkan states were now commencing to take issues into their hands. They concluded war agreements against the Ottoman Empire. George F. Kennan, *At a Century's Ending*, W. W. Norton & London, 1997, pp. 192-193.

⁴² The Austro-Russian note was presented on the same day when Montenegro declared war on Turkey. Alan J. P. Taylor, *The Struggle for Mastery in Europe: 1848-1918*, p. 490.

⁴³ Barbara Jelavich, *History of the Balkans, Vol. II*, pp. 97-8.

Ottomans and Romania, Greeks and Serbs were able to defeat Bulgaria. The Treaty of Bucharest of August 1913 did not satisfy the requirements of the main Western Balkans' countries. Bulgaria retained only a part of Macedonia, while Greece and Serbs did not completely receive what they wanted from Macedonia. Establishing Albanian independence, the great powers also left unsatisfied nationalist expectations in this area of the Greeks and Serbs.⁴⁴ Thus, unsatisfied countries would exploit the earliest opportunity to readdress their aspiration.

5. World War1

With the Ottoman Empire out of the Balkans, the nationalist issues were focused on the northern part of the region. The main questions were related to the relationships of the Slavic inhabitants (the Serbs, Croats, and Slovenes) of the Dual Monarchy with both the Monarchy itself and the Serbian state. More problematic were Serbian nationalists, who inspired from the German and Italian examples wanted their kingdom to be "the Piedmont of the Balkans." Thus, the greater Serbian goal was the acquisitions of lands that at some time had been under the jurisdiction of the Serbian Orthodox church. As a model for fevering nationalist passions served the Serbian medieval Empire of Stephen Dusan. Serbian national sentiment produced in the summer of 1914 the assassination of Franz Ferdinand, the heir to the Habsburg throne.⁴⁵ Being under the conditions of increasing interdependence, the alliance system, which kept Europe out of the war, had forced it into war.⁴⁶ In the sum, Germany mobilized to back the Austrians, and the Russians mobilized to back the Serbs. In means that the Great Powers were in war:

⁴⁴ The Serbs occupied all the northern parts of Albanian and reached the Adriatic at Durazzo. Calculating that a Serbian port in Adriatic would in fact be a Russian port, both Austria and Italy irreconcilably opposed the Serbian outlet in Adriatic. Thus, they both strongly engaged in the creation of the Albanian state. The conference of ambassadors held under the presidency of the British foreign secretary in London in December 1912 established an independent Albanian state. The great problem of the division of Macedonia remained open. Thus, the great powers imposed a settlement that left nationalist expectations unfulfilled. Robert Lee Wolff, *The Balkans in Our Time*, p. 93, and Alan J. P. Taylor, *The Struggle for Mastery in Europe: 1848-1918*, Oxford: Oxford University Press, 1957, pp. 494-498. See also, Barbara Jelavich, *History of the Balkans, Vol. II*, pp. 99-100.

⁴⁵ Barbara Jelavich, *History of the Balkans, Vol. II*, pp. 108-113, and Charles Jelavich and Barbara Jelavich, *The Balkans*, pp. 77-80.

⁴⁶ Being alone after the Morocco crises, Germany had no other choice but to provide a blank check to Austro-Hungary. On the other hand, the aggressive attitude of the pre-war Germany increased cooperation between the Entente governments. Moreover, German and Austro-Hungarian decision makers in 1914 had arguments in order to believe that fighting a preventive war was necessary because the future would bring for them far worse circumstances.

Russia, France, and Great Britain (including the United States and Italy) against Germany, Austro-Hungary, and Turkey.⁴⁷

The consequences of the World War 1, related directly with our topic, are as following:

First, increasing hatred between Balkan peoples as a consequence of their divisions, during the war, in different camps: Bulgarian and Turkish support for Central Powers, and Serbian (a belligerent country) and Greek support for the Allies only sharpened centuries old hostilities.⁴⁸

Second, suffering a high cost in economic destruction and human distress during the war, the Balkan countries faced a demographic disaster and economic decline after the war.⁴⁹ In addition, considering the fact that the Balkan countries perceived the peace settlements imposed and unjust, it is understandable that the old resentments were fostered further on.

6. The Balkan States Between the Wars

Considering the above consequences, it is clear that the inter-war years were very harsh for the Balkan peoples. The peace settlements in no way settled the national conflicts in the region. Taking into consideration that the border areas in the region were too intermixed, it is understandable the impossibility of dividing the Balkan people on purely national lines. The principle of self determination was very good for the defeated states as a possibility to save them from greater losses while the historic and strategic claims were very good for the victorious as a possibility to gain more. Thus, President Wilson's ideas of self-determination in drawing the national borders clashed with those who wished to use the peace settlement as a possibility to guarantee their future dominance.

⁴⁷ Under the influence of the war minister, who was well-known as pro-German, the Turkish government signed a secret alliance with Germany on August 2, 1914, one day before Germany declared war on France. Barbara Jelavich, *History of the Balkans, Vol. II*, p. 116.

⁴⁸ Murderous Macedonian and Montenegro occupation from Bulgarian increased the Serbian existing hatred of their eastern neighbor. Leften Stavros Stavrianos, *The Balkans Since 1453*, pp. 648-650.

⁴⁹ Serbia suffered approximately 600,000 civilian casualties (2.5 times, per capita, the casualties of France and 3.0 times that of Britain. Montenegro lost almost 63,000 people, or approximately 25 percent of the prewar population. Vladimir Dedijer, Ivan Bozic, Sima Cirkovic, and Milorad Ekmecic, *History of Yugoslavia*, pp. 501-502, and Leften Stavros Stavrianos, *The Balkans since 1453*, New York: Rinehart and Co., Inc., 1958, pp. 632-633.

Under these circumstances, at Versailles the peace settlements created the Yugoslav states—to the former Serbia Kingdom were added Croatia, Slovenia, Bosnia - Herzegovina, and Vojvodina (former Austro-Hungarian possessions). Thus, “to a greater extent Yugoslavia was the result of the general political and social forces at work in Europe, which culminated in the conflagration of World War I, and resulted ...in the disintegration of ... the Habsburg and Ottoman Empires.”⁵⁰ However, in Yugoslavia, the multiethnic nation-state proved to be a harsh experiment. Throughout the interwar period, the citizens of Yugoslavia considered themselves first as Serbs, Croats, Macedonians, or Slovenes. Thus, within the country the sharp divisions were clearly shown in all quarrels over the organization and functioning of government.⁵¹ Moreover, the annexation of some territories of Dalmatia (with predominantly Croat and Slovene population) to Italy aggravated the post war relations between Italy and the newly created large state.

Romania was the second favored nation of the Treaty of Versailles. The decline of Austro-Hungary and Russia (her two neighbors) created for Romania the possibility to double its size, becoming the largest state in the region after the war.⁵²

Greece, despite the fact that she was in the victors’ camp, received very little in comparison with her claims. Greeks’ attempt to gain by force a larger share resulted in a national tragedy. Thus, even though the World War ended in November 1918, for the region the conflict lasted further on with the Greco-Turkish War of 1921 -22. Greece was defeated losing not only territory but also was compelled to receive almost 1,3 million Greek refugees.⁵³

⁵⁰ Jozo Tomasevich, *Peasants, Politics, and Economic Change in Yugoslavia*, Stanford: Stanford University Press, 1955, p. 3.

⁵¹ Jugoslavism never won broad popular support and remained mainly an intellectual and literal concept, because the differences in the historical experience between the Serbs, Croats, Macedonians, and Slovenes were very acute.

A Montenegrin member of the Radical party shot the leader of the Croatian Peasant Party, Stjepan Radic, in 1928, in the assembly. This situation gave King Alexander the possibility to gather all the power of the state in his hands and thus established a royal dictatorship. Charles Jelavich and Barbara Jelavich, *The Balkans*, p. 96.

⁵² Ibid, p. 82.

⁵³ Considering the fact that Greek population at that time was about 4,5 million, it is clear that Greece suffered a national disaster. Ibid, p. 82.

Trying to control ethnic tensions by imposing ethnic partition, Greek and Turkey agreed, in the early 1920s, to exchange more than a million peoples as a solution for consolidating their nation-states. In fact, this exchange did not solve the problem because approximately 100,000 ethnic Greeks remained in Constantinople and for keeping the balance; the Turkish government left almost 100,000 Turks in western Thrace. Therefore, the roots of ethnic conflicts remained there generating continuous quarrels over the problems of treating the minorities.⁵⁴

As far as Albania and Bulgaria is concerned, although they had their own national states, they were not satisfied with the borders. Being in the losing side, Bulgaria lost western Thrace and some areas along the Yugoslav frontiers while Albania saw half of her population remain under Yugoslavia control. In sum, during the years after the war, further tensions and new problems between the Balkan countries were created. The Balkan governments, all in one manner or another, had to deal with national issues including not only the handling of minorities, but also the integration of co-nationals in the new territories.⁵⁵ The Great Depression of 1930s and the establishment of the National Socialist regime in Germany (1933) deeply affected the internal politics of the Balkan states. “Deprived of other markets by the world economic crises, the Balkan states found themselves increasingly drawn toward Germany.”⁵⁶ This largely replaced Ottoman or Habsburg authoritarianism with national dictatorships increasing ethnic and religious discrimination.

7. World War II

The beginning of World War II revived all national problems of Western Balkan countries. Hitler’s policies toward the Soviet Union required not only a secure southern flank, but their resources, as well. Therefore, before attacking the Soviets, the Nazis

⁵⁴ Leften Stavros Stavrianos, *The Balkans Since 1453*, New York: Rinehart and Co., Inc., 1958, p. 590, and William T. Johns, *Deciphering the Balkan Enigma: Using History to Inform Policy*, Strategic Studies Institute, 1995, p. 22.

⁵⁵ Barbara Jelavich, *History of the Balkans, Vol. II*, p. 191.

⁵⁶ Charles Jelavich and Barbara Jelavich, *The Balkans*, p. 101.

bolstered their relationship with Romania, Bulgaria, and Hungary.⁵⁷ On the other hand, the Italian failure to occupy Greece, forced Hitler to turn attention toward the Balkan front. The Allied intervention (British occupied Corfu) and the failure of Yugoslav government to completely fulfill the German's demand compelled Hitler to invade both Greece and Yugoslavia in April 1941.⁵⁸

By the summer of 1941, when German armies began their attack against the Soviet Union, all of the Balkan states were involve in hostilities: Romania and Bulgaria were Axis allies while Albania, Greece, and Yugoslavia were under German occupation. Punishing the Western inclination of Serbia, the Nazis dismembered Yugoslavia in favor of a Greater Croatia, Greater Albania, and a Greater Bulgaria. These nationalist sentiments erupted in bloody conflicts. It has been estimated that as many as 350,000 Serbs were killed at this time.⁵⁹ Thus, the Balkan countries suffered terribly during the war years. It is understandable that the countries that were under German harsh occupation suffered more. The active resistance movements organized especially by partisans in Yugoslavia and Greece increased the German reprisals. For instance, Yugoslavia suffered 1.7 million dead out of a population of 16 million.⁶⁰

Despite the idealistic aspects of partisans' movements, they had also their harsh side, which was further fostered by ethnic and religious divisions. Enemies, bes ides foreign occupiers, were treated with ruthlessness and cruelty. These attitudes were to be carried over into the post war regimes and to be applied toward any political opposition.

8. Post-World War II

The years immediately following World War II (as the Years after World War I) did not see an end to conflicts in Western Balkans countries. Yugoslavia was involved in

⁵⁷ Based on the Nazi-Soviet Pact of August 1939, the Soviet Union took Bessarabia and northern Bukovina. Being the case, Bulgaria presented its claims to Rumanians lands. Acting as arbiter, Germany, in the Vienna Award of 1940, gave southern Dobrudja to Bulgaria. Thus, Romania was forced to cooperate with Berlin as the only possibility to save the rest of the territory. Ibid, p. 102.

⁵⁸ In March 1941, the Yugoslav government signed a pact with Germany according to which Yugoslavia was to provide military assistance to Germany in return for the future position of territory in Greek Macedonia. Having both public and secret sections, the pact generated rumors and provoked an immediate reaction in Belgrade. A military coup took over the government. Barbara Jelavich, *History of the Balkans, Vol. II*, pp. 235-238.

⁵⁹ Ibid, p. 265.

⁶⁰ Vladimir Dedijer, Ivan Bozic, Sima Cirkovic, and Milorad Ekmecic, *History of Jugoslavia*, p. 415.

the civil war until 1947, when Tito's Communist regimes successfully took over the complete control of violence. The Greek civil war lasted from 1946 to 1949. The United States aid helped the victory of government and left Greece out of Soviet influence. Thus, with the Communist party in power in Yugoslavia, Rumania, Bulgaria, and Albania, the Communist model of state, forming a solid and repressive dictatorship, achieved to suspend historical animation. Using Stalin's models of secret police and concentration camps, the Communist dictators in the Balkan countries were able to suppress all forms of ethnic nationalism. However, the bitter memories of ethnic conflicts were secretly passed from parents to children. This 'buried' legacy burst into with a brutal force when the communist regime collapsed in the 1980s.

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III. THE HISTORICAL ORIGIN OF CONFLICT

A nation is a people united by a common dislike of its neighbors and by a common mistake about its origin

George Brook⁶¹

The Balkans is a mosaic of peoples that differentiate themselves by ethnic origin, religion, language, and culture. The richness of different ethnic, religious, linguistic, cultural, and economical factors that Balkans is endowed with, has been an incubator for numerous conflicts. Most of them have their distant historical background, and have become an inseparable part of national determinations and are to large extent influencing present behaviour of particular states. The latest proof has been NATO air strikes (1999) against Serbia because of Serbian repression and ethnic cleansing against the ethnic Albanians in Kosovo. The expulsion of over a million of the Albanian population from their lands by the Serb army and paramilitary forces jeopardized the stability of the whole Western Balkans. Thus, analyzing the roots of conflicts in the Balkan is important not only for putting the right diagnose about the nature of conflicts, but also for defining the right recommendations for the future.

Even though within the Balkans, ethnic origin, language, culture, and religion are too closely tangled to be addressed independently, having a better understanding of these complex issues requires separate investigation. Thus, in this chapter I will examine the ethnic, religion, language, and culture divisions in the Balkans.

A. ETHNIC DIVISIONS

If one looks at an ethnic map of Europe, he is struck by a sharp discrepancy between western and eastern states. The relative homogeneity of ethnic groups is characteristic (beside Britain) for western states, while the relative heterogeneity of ethnic groups is characteristic for eastern states, especially the Western Balkans. The main characteristic of all the countries included in the Western Balkans is that they are host - states of sizable ethnic minorities concentrated in border regions with neighboring kin -

⁶¹ Cited in Uri Ra'anan et al., eds. , *State and Nations in Multi-Ethnic Societies*, Manchester: Manchester University Press, 1991, p. 54.

states. Indeed, some 20 peoples coexist there, who speak numerous languages and practice three principal religions: Catholicism, Orthodoxy, and Islam.⁶²

The last wave of migrations, which broke over the Balkans by the end of the 9th century largely, constituted ethnic divisions in the region. However, even at this early time, no ethnically pure groups remained in the region because a band of Slavic speaking peoples separated the Albanian and Greeks in the south from Romanians in the north.⁶³

The ebb and flow of Ottoman Empire considerably increased ethnic mixture in the region. With the expansion of the Ottoman Empire, in the fourteenth century, the Serbs were pushed north and west. Suffering under the Ottoman domination had from the beginning led large numbers of Serbs to migrate and sizable groups settled in southern Hungary, western Bosnia, Croatia, and Slovenia.⁶⁴ With the contraction of the Ottoman Empire, sizable part of the displaced populations migrated southward once again. Thus, from the ethnic standpoint, the result of the Ottoman rule in the region was the creation of a patchwork ethnic composition that has remained up to the present days.

The repressive character of the Ottoman Empire, and the ethnic patchwork posed considerable barriers to the rise of Risorgimento nationalism and, therefore, hindering the development of unifying nationalist movements. However, unable to consolidate around a single unifying nation, ethnic groups coalesced around their language and religion and embraced a pattern of nationalism which was inspired by historical myths.

Each of the Balkan states had its period of grandeur, coinciding with its maximum occupation of territory. These expansions—through wars or as rewards of major powers—occurred in different historical periods.⁶⁵ Thus, Albanians experienced the great prosperity during the Roman times. The Slavic advance deeply affected the

⁶² Milica Zarkovic Bookman, *Economic Decline and Nationalism in the Balkans*, New York: St. Martin's Press, 1994, pp. 38-39.

⁶³ The influx of Slavic immigrants, which started in the six -century, altered the ethnic character of the indigenous populations through a massive admixture of new-culture bearing. Anthony D. Smith, *The Ethnic Origins of Nations*, Blackwell, Oxford UK & Cambridge USA, 1987, p. 96, and Charles Jelavich and Barbara Jelavich, *The Balkans*, pp. 15-23.

⁶⁴ Robert Lee Wolff, *The Balkans In Our Time*, p. 64, and William T. Johnsen, *Deciphering the Balkan Enigma: Using History to Inform Policy*, p. 29.

⁶⁵ As we have seen in Chapter II, in the Balkans, in the nineteenth century, boundary changes occurred because of the actions of the great powers, which traded these territories as if they were pawns.

Albanians lands.⁶⁶ Macedonians have looked at the times of Philip II and Alexander III (pre-medieval period), when the kingdom of Macedon stretched to Persia and to Mediterranean.⁶⁷ Croats based their national claims to the *Pacta Conventa* (1102) that established a Croatian state, which included the Northwest corner of the Balkans.⁶⁸ Bulgarians have looked to the Empire of Tsar Asen II (medieval times), who stretched Bulgaria from the Adriatic to the Black Seas. Serbs have reached the height of their glory during the reign of Tsar Dusan (fourteenth century), when Serbia included part of Albania, Macedonia, Montenegro, and northern Greece, and its borders extended from the Adriatic to the Aegean Sea and to the gates of Constantinople.⁶⁹ Romania entered the nineteenth century as a series of principalities, and reached its “glory” days in modern times. After the Crimean War (1854), these principalities were unified and the modern Romanian state was born.⁷⁰

Taking into consideration that since their independence in the nineteenth century the Balkan countries have based their stances or actions on what happened in the pre-Turkish period or beyond, it is clear that the reference to the historical myths and to the establishment of independent kingdoms is not mere historical footnote. During the conflicts of the last decade, many ethnic groups in the region used historical myths and claims to justify their actions and territorial demands.

The above historical review clearly indicates that most nations in the region have competed for an intermingling territory, and here it stands a great cause of perpetual

⁶⁶ Barbara Jelavich, *History of the Balkan: Eighteenth and Nineteenth Century*, Vol. I, p. 25.

⁶⁷ Milica Zarkovic Bookman, *Economic Decline and Nationalism in the Balkans*, p. 45.

⁶⁸ Situated near the line of division between the Eastern and Western empires, Croatia was the scene of religious controversy. The choice of Rome was finally accepted at the end of eleventh century. In 1102 Croatia was united with Hungary through a king who was a Hungarian monarch and fully accepted by the Croatian nobility. Croatia had a special position within the Hungarian kingdom including extensive rights of autonomy. Barbara Jelavich, *History of the Balkan: Eighteenth and Nineteenth Century*, Vol. I, pp. 23-24.

⁶⁹ Ibid, pp. 17-19.

⁷⁰ Doubling its territory after the World War I, Romania became the largest unit in the Western Balkans. Stalin retook the Bessarabian territory to incorporate it into the Moldavia in 1940. Thus, Greater Romania was established during this century. Milica Zarkovic Bookman, *Economic Decline and Nationalism in the Balkans*, p. 46.

conflicts.⁷¹ Thus, the movements and the conflicts in the region are inspired and caused form the ethno-nationalism, which derives from the ethno-territorial concept.⁷²

With the decline of Ottoman Empire⁷³ in the region, the ethno-nationalism reached the momentum. Indeed, Great Powers' concern over the separation of Ottoman ruins oftentimes suspended nationalist inspirations. Furthermore, the practical impossibility to bring all the segments of an ethnic group under one nation only created a cycle of unsolved remaining conflicts which the fires of ethno-nationalism brought inevitably and periodically on the scene.

The starting point for the ethnically based territorial disputes between Serbs and Albanians is the Treaty of Bucharest of August 1913, which established the independent state of Albania. The great victors were Serbia and Greece because large parts of northern, eastern and southern Albania went to Serbia and Greece.⁷⁴ As a result, over half of the Albanian population was left outside the borders of the new state of Albania. This situation has been preserved to the present day.⁷⁵

⁷¹ According to Anthony Smith, where there is more than one title-deed to the same territory, the probability of ethnic conflicts, and nationalist wars is greatly increased. Anthony Smith, *The Ethnic Revival*, London: Cambridge University Press, 1981, p. 450.

⁷² The ethno-territorial concept links the ethnic group with a territory. According to Thompson and Rudolf, "the term ethno-territorial is used...for various political movements and conflicts that are derived from a group of people...having some identifiable geographic base within the boundaries of an existing political system...." The definition of ethno-nationalism is "the sentiment of an ethnic minority in a state or living across state boundaries that propels the group to unify and identify itself as having the capacity for self-government." Joseph R. Rudolph and Robert J. Thompson, eds., *Ethno-Territorial Politics, Policy, and the Western World*, Boulder: Lynne Rienner Publishers, 1989, p. 2, and Walter Connor, *Politics of Ethno-nationalism*, Journal of International Affairs 27, no. 1, 1973, pp. 1-21.

⁷³ The first major Ottoman war, the Crimean War (1854-1856), came with Russia. This war is unique in Ottoman history in that the Ottomans themselves did not heavily influence the outcome. The war soon became a European war when Britain and France allied with the Ottomans in order to protect their lucrative trade interests in the region. Even though the Ottomans won the war, the victory had important consequences for the Ottoman Empire as well. From this point onwards, the Ottoman Empire saw itself as being heavily controlled by Europeans. Thus, the Crimean War initiated a decline in Ottoman morale and helplessness. Europeans, for their part, no longer saw the Ottomans as an equal force to be reckoned with, but as a tool to be used in larger European concerns. Alan Taylor, *The Struggle for Mastery in Europe*, pp. 62-82.

⁷⁴ The ancestors of Albanians, the Dardanians, lived in Kosovo before Slav invasions of the sixth century. The classical Serbian view pretends that the people who lived in Kosovo were overwhelmingly Serbs until the invasion of Ottoman Empire and, therefore, the land would be that much stronger. Tim Judah, *Kosovo: War and Revenge*, Yale University Press, 2000, p. 2.

⁷⁵ With the escalation of violence first in Kosovo (1999) and actually in Macedonia, it becomes even more evident that the Albanian national question could present a greater and longer-term threat to stability in the Western Balkans than Bosnia

Participation of various ethnic groups in different camps in the World War I increased ethnic hatred. Thus, Serbia, Greece, and Romania fought on the side of the Allies, while the Croats, Bulgarians and Slovenians supported the Central Powers. During the war, Croats collected Serbs and Muslim Slavs (Bosnians) into concentration camps, where tens of thousands of them died, mainly through disease and neglect.⁷⁶ These events shed light for a better understanding of the war between Croats and Serbs in the middle of 1990s.

On the other hand, the creation of Yugoslavia following World War I offers a brilliant example of the failure to fulfill ethno-nationalist claims. In fact, the fear of Italian expansion to the South Slavs territory forced them to unite Serbia. Thus, it was the threat from abroad that forced the leaders of the South Slavs to negotiate the unification with Serbia.⁷⁷

In the inter-war period, Albanians from Kosovo and western Macedonia were subject to Serbian rule that can be characterized by oppression and educational-cultural marginalization. Moreover, the Serbs tried to carry out territorial ethnic restructuring through Serb colonization and through an oppressive treatment to force Albanians to emigrate. Because of this policy, in the years 1918-1941, some 70,000 colonists were brought to Kosovo and around 150,000 Albanians emigrated mainly in Turkey.⁷⁸

However, the Albanians under the Serb rule never gave up their resistance against oppression. The *kacak* resistance founded in 1918 the Committee for the National Defense of Kosovo, which became known as Kosovo Committee. Just like the Kosovo Liberation Army (KLA), it smuggled arms across the borders with Albania and coordinated the resistance of the Albanian Population in Yugoslavia.

⁷⁶ Vladimir Dedijer, Ivan Bozic, Sima Cirkovic, and Milorad Ekmecic, *History of Yugoslavia*, pp. 494-495.

⁷⁷ The secret Treaty of London (1915) had promised the Italians much of the South Slavs Territory as a price for entry into the war on the Allied side. Wishing to block Italian occupation of their territory, the South Slavs considered it necessary to settle the political status of these lands as soon as possible. Sharing the same language and considering themselves one people by blood, the Croats, Serbs, and Slovenes united at the end of 1918 in the same state, Yugoslavia. Robert Lee Wolff, *The Balkans In Our Time*, p. 98, and Barbara Jelavich, *History of the Balkans, Vol. II*, pp. 143-157.

⁷⁸ Tim Judah, *Kosovo: War and Revenge*, p. 22, and Noel Malcolm, *Kosovo: A Short History*, London, 1998, p. 57.

The World War II was the first test proved that Yugoslavia, as a multiethnic nation-state, was a difficult experiment. Taking into consideration the strategic location of Yugoslavia and her Western preference, the Nazis—in order to keep order in this state and to balance and punish its Western leaning—dismembered the country in favor of a Greater Croatia, Greater Albania, and Greater Bulgaria.⁷⁹ Moreover, during the war, Hitler undertook large-scale measures to carry out his grandiose plan of Germanizing various Yugoslav peoples. According to this plan, the Nazis deported about 40,000 Slovenes, and approximately 200,000 Serbs and Slovenes left on their own to escape the fate that would otherwise have awaited them.⁸⁰ Inspired from the Hitler's ideology of exterminating, the Croats and Bulgarians carry out mass expulsions of outside elements living in their areas. Thus, the Bulgarians realized mass exclusions of Serbs in Macedonia and presented large numbers of Bulgarians colonists in the area.

From the ethnics' standpoint, the most controversial political creation of this period was the independent state of Croatia. Including the territories of Bosnia and Herzegovina considerably complicated the ethnic bases of the state. "Of its 6.5 million inhabitants, only 3.4 million were Croatian; there were also 1.9 million Orthodox Serbs, 700,000 million Muslims, 150,000 Germans, 18,000 Jews, and some Italians."⁸¹ Although a German military command was established in Zagreb, Hitler (occupied with the Eastern campaign preparations) let Mussolini decide who would run the government. The Italian dictator naturally chose Ante Pavelic, the *Ustasa* leader, who with the Mussolini support had created its political movement in 1929.⁸²

The implementation of the exterminating policy, in a state with ethnic composition as Croatia, ended in bloody conflicts. Once the *Ustasi* campaign began, as

⁷⁹ Germany directly annexed two-thirds of Slovenia and Italy annexed the rest. To Italy went also large Croatian areas. However, Croatia, compensated with all of Bosnia and Herzegovina, was long the goal of the nationalists. Bulgaria occupied part of Macedonia (what was left by Italy) and portions of southern and eastern Serbia. Most of Kosovo and western Macedonia were occupied by the Italians and were given to the state of Albania. Robert Lee Wolff, *The Balkans In Our Time*, pp. 202-203.

⁸⁰ Vladimir Dedijer, Ivan Bozie, Sima Cirkovic, and Milorad Ekmecic, *History of Yugoslavia*, p. 580.

⁸¹ Barbara Jelavich, *History of the Balkans, Vol. II, Twentieth Century*, New York: Cambridge University Press, 1983, p. 263.

⁸² Ante Pavelic, a member of the Frank wing of the Croatian Party of Rights, in 1929 with the support of Mussolini, organized the *Ustasa* (Insurrection) movement. The goal was the achievement of Croatian independence, if necessary by means of violence. Ibid, p. 201.

early as late April 1941, Serbs under Colomel Drazha Mihailovic organized their resistance. Mihailovic called his forces the *Chetnik* because this term recalled to memory similar groups that had fought against Ottoman rule.⁸³ Even though the main concern of Mihailovic and the *Chetniks* was to build up a great Serbia or as it was sometimes called, a Serbian unit within a great Yugoslavia, the *Chetnik* movement had no post war solution of the national question to offer the other ethnic groups of Yugoslavia. Considering that the main thought of the *Chetnik* leaders was to bring back what had been lost, it is understandable that the war between the *Ustasi* and the *Chetniks* had no room for compromise and the outright murder became commonplace.⁸⁴

The failure of Hitler to finish quickly his campaign against the Soviet Union gave the possibility the Axis-occupied regions to organize their partisan movements. In the case of Yugoslavia, the Communist Party, illegal for years under the royal government, took the lead, and the general secretary of the Party Josip Broz Tito, nicknamed Tito, commanded the Party's resistance activities. Even though both the Partisans and the Chetniks had the same objective of expelling the enemy, they failed to work together. The most serious disagreement between the Partisans and the *Chetniks* was the division over the future of Yugoslavia. Appealing strictly only to the Serbs, the *Chetnik's* program had no attraction for the Croats, Albanians, Macedonians, Slovenes, and Bosnians. On the contrary, the Partisan's program was to defend the equal rights of all the constituent nationalities of the Yugoslav state. Furthermore, the brutal German reprisals against the actions of resistant movement forced the *Chetniks* to believe that German reprisals against guerrilla warfare would be so terrible as to threaten the Serb people with extinction. Therefore, the *Chetniks* began to feel that the Partisans, with their insistence on provoking reprisals, were the greatest danger. A three-side war thus developed between the *Chetniks*, the Partisans, and the *Ustasi*.

The civil and ethnic war quickly extended further than Croatian-Serbian warfare because both sides settled old scores with the Muslim community. Emphasizing the

⁸³ The *Chetnik* army was organized into sub-commands in widely scattered portions of the country. Due to this situation, Mihailovic often did not have full control of his subordinates, who acted as little more than bandits. Robert Lee Wolff, *The Balkans In Our Time*, p. 207.

⁸⁴ Jozo Tomasevich, *War and Revolution in Yugoslavia, The Chetniks: 1941-1945*, Stanford: Stanford University Press, 1975, pp. 166-176.

slogan “Serbs above all”, the *Chetniks* pushed the Serbs to fight the Croats and Muslims. This policy forced Muslims to join the Croats in the uprising against the Serbs. Thus, the ethnic and civil war dressed with the religious aspects won another dimension infinitely complicating the problems of Yugoslavia, already difficult beyond human understanding.⁸⁵

The costs of this complex (civil-ethnic-religious) war were overwhelming. It has still not been estimated how many Serbs were killed in Croatia. Some authors claim that the number of victims was 300,000; others put the figure at 500,000 at least. However, the Serbs were not the only victims. Muslims also suffered largely. Within Bosnia-Herzegovina about 8 percent of the pre-war population perished.⁸⁶ Thus, the ethnic carnage in Bosnia took more lives than the fight against foreign occupiers or the conflicts of the 1990s.

Even though the Croatian casualties were less than Serbs, they were considerable. The bloodiest episode involved the fate of the Croatian supporters of the *Ustasi* regime. Over 100,000 of these people decided to surrender to the British army. Because of an inter-Allied agreement that prisoners were to be sending back to the government against which they had fought, the British gave this people back to the Partisans. Within six weeks the majority of these people died.⁸⁷

Even the civil war, as we have seen, caused a significant number of casualties, it did not solve the ethnic issues. The final decision on the territorial disposition of Western Balkans affairs at the end of the World War II, as in the past, depended not on the President Wilson’s ideas of self determination but upon the relations and the interests of the great powers.

⁸⁵ Vladimir Dedijer, Ivan Bozic, Sima Cirkovic, and Milorad Ekmecic, *History of Yugoslavia*, pp. 595-596.

⁸⁶ Noel Malcolm, *Bosnia: A Short History*, New York University Press, 1994, p. 192.

⁸⁷ Barbara Jelavich, *History of the Balkans, Vol. II*, p. 272.

Trying to prevent complete Soviet domination of the Balkans, the British Prime Minister, Churchill sought to make some kind of an arrangement with Stalin.⁸⁸ Having no support from the United States, they agreed to replace the percentage agreement with the Yalta Declaration. Referring the future political order in the Balkans the text of the Declaration proclaimed “the right of all people to choose the form of government under which they will live” and “the restoration of sovereign rights and self-government to those people who have been forcibly deprived of them.”⁸⁹ Even though Stalin signed the Declaration, his aim for the establishment of purely Communist regimes throughout the western Balkans required methods other than “the right of people to choose the form of government”. Thus, the Balkan countries emerged from World War II with different political institutions and a unified foreign policy managed and controlled by the Soviet Union.

Taking into considerations that the Communist regimes were supplied with an anti-national bent, it is understandable that their solid and repressive dictatorship suppressed all forms of ethnic -nationalism. After World War II, an armed revolt of the Albanian Kosovars who refused to go back to Yugoslavia was suppressed and Kosovo, in fact, was again part of Serbia, although by name it was an autonomous region. The Serb oppression achieved the climax during the time when the Ministry of interior and secret service were in the hands of Alexandar Rankovic.⁹⁰ Believing in traditional old-style repression methods, Rankovic gave to Serbs all key positions in Kosovo. Albanian frustration erupted in the 1968 demonstrations that were put down with the use of force. Since then, however, steps were taken to improve the status of Kosovo, a process that fully crystallized in the Federal Constitution of 1974.

Considering the explosive character of the ethnic issues, Tito attempted to establish internal borders based on national bases. “Because of the mixed population, it

⁸⁸ During his visit to Moscow in October 1944, Churchill proposed to Stalin the percentage agreement for dividing the influences in Balkans. In the Yalta conference, President Roosevelt produced a Declaration on Liberated Europe, drafted by the State Department. The Declaration required Churchill to insist on breaking down the percentage agreement, which he was prepared to keep. Robert Lee Wolff, *The Balkans In Our Time*, pp. 261-267.

⁸⁹ Quoted in Barbara Jelavich, *History of the Balkans, Vol. II, Twentieth Century*, p. 287.

⁹⁰ Alexander Rankovic was a Serb (the second man after Tito) and many Serbs regarded him as ‘their’ man in Tito’s inner circles. Tim Judah, *Kosovo: War and Revenge*, p. 34.

would have been impossible to create purely national republics.... Yet the republics were defined as sovereign homelands of sovereign nations: Croatia of Croats, Serbia of Serbs, and so on.’⁹¹ This enterprise, established to protect ethnic minorities in other republics, created the precedent of allowing the minorities living within a republic to consider themselves part of their nation.⁹² Thus, the ethnic passions obliged Tito to alternate methods. On one hand, he provided greater local autonomy, through constitutional changes as in 1953, 1962, and 1974, and on the other, he carried out purges in the cases of strong nationalism.

Yugoslavian’s Communists believed that humanity could create a new human being. They thought that the ethnic differences were negligible, since they were principally based on historical memories and religion, both belonged to the past. Thus, the Communists were correct in the perception of differences among different ethnic groups as primarily rooted in history. They were mistaken in thinking that because of this they had no future. In fact, the ethnic passions that obliged Tito to reshuffle his policy, and to grant greater local autonomy as he did in 1953, 1962, and 1974.

According to the Constitution of 1974, Kosovo was proclaimed an Autonomous Province with a representative status in the Federation almost equal to that of the constituent republics. Although, *de jure*, Kosovo acquired status close to the other republics within Yugoslavia, *de facto*, the province was formally within Serbia and had no right to self-determination. However, the power was by now considerably in the hands of Albanian (Kosovar) Communists. The constitution resulted in increased Albanian political control of Kosovo. Thus, besides the armed forces and foreign relations, the local state apparatus moved into the hands of Albanian Kosovars.⁹³

The Constitution of 1974 became a turning point in the relations between Serbs and Albanians. In the opinion of Serbs, the constitution had encouraged the autonomous

⁹¹ Aleksa Djilas, *The Contested Country: Yugoslav Unity and Communist Revolution, 1919-1953*, Harvard University Press, 1991, pp. 161 -162.

⁹² The Serbian leaders to justify their actions in Croatia, Bosnia and Kosovo during the conflicts of last decade used this precedent of interfering in the internal affairs of a neighbor in the name of protecting the minority’s rights.

⁹³ The situation was different with the Albanians in the Republic of Macedonia, where the Slav Macedonians not only did not accept to share the power with Albanians, but also they further marginalized Albanians within the republic.

province of Kosovo to behave as a federative unit. However, considering themselves as the third largest national group in Yugoslavia (after the Serbs and Croats), Albanian Kosovars shared a strong opinion that the constitution gave them fewer rights than they deserved.⁹⁴ Thus, the dissatisfaction of Albanians with an Autonomous Province status and their refusal of the Serbs' legitimacy in the province lie at the core of the conflict between the two sides.

In the case of Romania, an historical survey can quite clearly show that the main area of the ethnically based territorial disputes with Hungary was Transylvania. As in the case of the ethnic disputes between Albania and Serbia, Romanians claim that they were the original inhabitants of Transylvania. On the other hand, Hungarians insist that the area was unoccupied when their antecedents arrived in the 10-th century. Thus, Transylvania has "periodically" moved from Romanian rule to Hungarian and back. Among these moves the most "prominent" was the one at the end of the Great War when, as Austro-Hungary disintegrated in 1918, Romania being in the Allies' side entered her armies in Transylvania, and her possession of the province was confirmed at the Versailles Peace Conference.⁹⁵ Therefore, after 1919, Romanians possessed administrative and political positions, and Romanian became the official language of the region. Nevertheless, Hungarians were able to keep their schools, churches, and newspapers.

As far as the policies of Romanian communists are concerned, they were in tune with the Stalinist model for national self-determination. After World War II - in the early fifties - they granted to the Hungarian minority broad minority rights. The Romanian state established a Hungarian Autonomous District in Transylvania. In this district, the Hungarian was put on a par with the official Romanian language, and a system of schools, universities, and cultural institutions (under Romanian state financial responsibility) were set up. Despite these attempts and many fine statements about the equality of the citizens, the fact remained that the Romanian officials did not trust the

⁹⁴ The Albanians Kosovars wanted the status of a republic, which included the right to secede. They based their claims on the fact that the republic's status had Macedonia and other smaller provinces than Kosovo.

⁹⁵ Thus, Transylvania contains a large Hungarian population (40% of the total), who never forgave the Treaty of Trianon (1919), which left two thirds of Hungarian territory outside Hungarian borders. Milica Zarkovic Bookman, *Economic Decline and Nationalism in the Balkans*, pp. 58-59.

Hungarian minority, whose national ties were obviously still with the Hungarian state.⁹⁶ Thus, in 1968 the Autonomous Region ceased to exist, Hungarian rights to use their mother tongue in the school system, in courts, and administration were severely reduced, and representatives of minorities were removed from leading positions on all levels. The state intensified a process of increasing the number of ethnic Romanians in areas where prevailed the Hungarian ethnic element. The goal of this policy was to assimilate the Hungarian minority population through the resettlement in Transylvania of thousands of Romanians.⁹⁷

In Bulgaria, during the Ottoman rule, there was a large colonization of Muslim settlers from Anatolia while many Bulgarians were massacred or escaped to the mountains. In these areas, the Turks developed a class of Turkish landlords who held the key positions. However, this process undertook a reverse direction with the creation of the modern Bulgarian state in 1878.⁹⁸ The unwillingness to familiarize with the newly created Christian state obliged a large number of Bulgaria's Turkish-speaking inhabitants to emigrate. Thus, while in 1881 they represented almost 25% of the population of Bulgaria, in 1910 they presented only 11%.⁹⁹ Moreover, the new Bulgarian state was reluctant to allocate sufficient funds for the development of the region inhabited by Turks, which was the cause for the increasing backwardness of this region. This policy alienated this ethnic group from the Bulgarian state contributing to the preservation of the feeling of belonging to Turkey.

During the Communist rule, in Bulgaria, as in the case of Romania, Moscow influenced the policy toward the Turks. Thus, the Bulgarian state granted to them substantial political and cultural rights, and began to give funding from the state budget

⁹⁶ Taking into consideration that the standard of living was higher in Hungary, the attractiveness of this state for the Romanian Hungarians multiplied. Barbara Jelavich, *History of the Balkans, Vol. II*, p. 377.

⁹⁷ Milada Anna Vachudova, "Peaceful Transformations in East-Central Europe" – in *The International Dimensions of Internal Conflict*, ed. Michael E. Brown, The MIT Press, Cambridge, Massachusetts, London, England, 1996, p. 84.

⁹⁸ As we have seen in Chapter I, the Treaty of San Stefano called for the creation of the great Bulgarian state. This was revised in the Congress of Berlin (1878). However, the border between Bulgaria and the Ottoman Empire was definitely settled at the Treaty of Neuilly (November, 1919) and since then has not been changed. Charles Jelavich and Barbara Jelavich, *The Balkans*, p. 56.

⁹⁹ R. J. Crampton, *A Short History of Bulgaria*, Cambridge University Press, 1987, p. 71.

to build schools and cultural institutions for Turkish education. This autonomy was seen as a step towards integrating the Turkish minority into a transnational communist society based on the Soviet model. However, the Bulgarian communist leaders did not internalize this policy and as soon as the process of de-Stalinization gave them larger freedom of action, they started to change course. For the next 25 years, they attempted to integrate the Turkish population not in some shapeless communist entity but in a nation, which, even as communist, would still be perceptibly as Bulgarian. The integration was planned to come about through gradual cultural and economic homogenization.

Taking into consideration that evolutionary assimilation did not fulfill the expectations placed upon it by the party leadership, this policy was replaced by the process of the forced assimilation of the Turks.¹⁰⁰ By the mid-1980s, the Turkish minority was forced to change their names and adopt Bulgarian ones. Brutal measures were introduced against Islam religion and the Turkish language. Over 1,000 Turks were held in prison and over one hundred were killed.¹⁰¹ During the mass demonstrations of Turks in 1989, the communist authorities used violence and provoked mass emigration of Turks to Turkey. “The biggest wave of Turkish emigration occurred in 1989...when 310,000 Turks left Bulgaria as a result of the Zhivkov regime’s assimilation campaign.”¹⁰² After the fall of Zhivkov, his successors tried to restore the rights to the Turkish population in Bulgaria.

In sum, with so many ethnic divisions in the Balkans, it is clear now that the ethno nationalism and his ultimate goal of border changing will not and cannot satisfy everyone. In fact, the process of border changes in the Balkans has been going on for centuries, and rewarding ethno-territorial nationalism would require enlarging the area of the region maybe fivefold. That being the case, the ethnic divisions still have a great potential for expansion and conflict.

¹⁰⁰ In fact, improved economic opportunities made the minority more rather than less inclined to develop its identity. Moreover, the Turks’ birthrate was far higher than that of the Bulgarians, and could conceivably challenge their numerical dominance, at least in the distant future.

¹⁰¹ Milada Anna Vachudova, *Peaceful Transformations in East-Central Europe*, p. 88.

¹⁰² Glenn E. Curtis, *Bulgaria: A Country Study*, Library of Congress: Federal Research Division, 1993, p. 81.

B. RELIGION DIVISIONS

Like much of early Europe, Christianity based on the Roman Catholic Church predominated throughout the region in the ancient times. The refusal of Greek patriarchs at Constantinople to recognize the claims of primacy of the bishop of Rome led to the Great Schism of East and West. This Schism became definitive in 1054 dividing the Christian world into the Roman Catholic and the Greek Orthodox churches.¹⁰³

From the viewpoint of Christian Orthodoxy, the Roman Catholicism, after the 1054 Schism, considered himself a diversion from Christian Orthodoxy. Catholicism, on the other hand, claims just the opposite. One way or another, Constantinople and Rome turned into two symbols of two mutually exclusive Catholic Christian prospects and of two mutually hostile Christian universal communities.

The geographic dividing line between the two churches fell across the Balkans. Thus, Croats and Slovenes remained under the Roman Catholicism and Bulgarians, Serbs, and Romanians came under the religion rule of Christian Orthodoxy. Taking into consideration that the two branches of the Christian Church continued to draw apart, it is understandable that this process further alienated their respective followers from each other.¹⁰⁴

The religion situation in the Balkans became more complicated with the arrival of Islam. In fact, the Turks did not practice the forced conversion to Islam. However, the civil discriminations and economic mistreatments caused a voluntary conversion mainly in Bosnia and Albania where 65% of the people were converted to Moslems.¹⁰⁵ Therefore, there are three bigger religious communities of special significance within the borders of the Balkans. Firstly, the Christian Orthodox community, the largest in number, includes Bulgaria, Rumania, and Serbia. Macedonia also belongs to the world of Christian Orthodoxy but the percentage of Muslims in this country is significant. In Albania, a traditionally Christian Orthodox population account for 20% of population.

¹⁰³ During the ninth and tenth centuries, the first and second waves of barbarians finished the process of conversion to Christianity. Here stand the roots of the refusal of Greek Patriarchs to recognize the primacy of the bishop of Rome, whom they regarded as a kind of Western barbarian. Joel Colton and R. R. Palmer, *A History of the Modern World*, Alfred A. Knopf, 1992, p. 25.

¹⁰⁴ William T. Johnsen, *Deciphering The Balkan Enigma: Using History to Inform Policy*, p. 27.

¹⁰⁵ Charles Jelavich and Barbara Jelavich, *The Balkans*, p. 26.

There is also a significant Orthodox community within the borders of Bosnia and Herzegovina. Secondly, the Muslim community includes about 65% of the population in Albania and Bosnia. In Bulgaria, Muslim community accounts for nearly 10% of the country's population. Thirdly, the Catholic community includes Slovenia and Croatia. In Albania a traditionally Catholic population account for 15% of the country's population. Part of the population in Bosnia and Herzegovina is Catholic. There are also Catholic communities in all the Balkan countries.¹⁰⁶

The establishment of the Ottomans in the Balkans split the "Mediterranean world" into two clashing camps of Christianity and Islam. Being cut from its sources in the Near East, the West launched a crusade to reestablish this connection. "The successful Ottoman expansion toward Central Europe until the end of the sixteenth century kept the idea of crusade alive...until the end of seventeenth century when the recession of the Ottoman Empire in Europe became...irreversible."¹⁰⁷

Even though the Balkans never experienced the kind of religious wars that were fought in western and central Europe, the religion however played a significant role in the ethnic conflicts. The propensity to identify religion affiliation with a specific ethnic group on the one hand and the relative religion freedom within the Ottoman Empire on the other hand, combined to make local churches the main symbol of the nationalism within the Balkans. Thus, the Latin Church was not only an important element that made the Croats different from Serbs, but also it was a rallying point for Croatian nationalism against the Serbs. In the same way, the Serbian Orthodox Church became the focus of Serbian nationalism until the Second World War.¹⁰⁸

However, during communist dictatorship all the Balkan countries brutally suppressed and victimized religion for more than four decades. This has left its impression on contemporary Balkan societies making them free from serious religious influences. That being the case, the Eastern Orthodox and Catholic Churches as well as religious Muslim institutions are actually incapable to be the spiritual leaders of their

¹⁰⁶ Robert Lee Wolff, *THE BALKANS IN OUR TIME*, pp. 550-558.

¹⁰⁷ Maria Todorova, *Imagining the Balkans*, Oxford University Press, 1997, p. 64.

¹⁰⁸ Aleksa Djilas, *The Contested Country*, p. 7.

followers. As far as the leaders of political parties in Albania and Bosnia, they are very careful not to be identified with Islam, not to speak of any form of Islamic radicalism.

C. LANGUAGE DIVISIONS

The massive migration that passed through the region added a variety of languages within it. Serbo-Croatian, Bulgarian, Macedonian, joined the ancient languages of the region. In addition, there are minorities speaking in Greek, Italian, Magyar, and Turkish.¹⁰⁹

Considering that the spoken or written language directly establishes an individual ethnic identity and his nation, it is clear that the language is inextricably linked with religion and ethnic identity. Only Albanians, for example speak Albanian and the same for Bulgarians and Romanians. This concept has gone further getting application even within a country. “Within the former Yugoslavia...dialects divide the official language along the ethnic lines.... Croats adamantly speak Croatian, while Serbs...rigidly speaks Serbian.”¹¹⁰

However, even though the language is an important criterion that helps in forging a nation, it is clear that keeping alive a strong solidarity requires strong “cement” composed of language, religion, and ethnicity. Thus, for example, the Serbs and the Croats discovered at the beginning of the 19th century that they were speaking almost the same language: Serbo-Croatian.¹¹¹ The Yugoslav nation was thus “practically” born. Once the Yugoslav state was dismantled, the language followed in the same path: Serbian and Croatian are actually proclaimed as distinct languages.¹¹²

The consequences of the proliferation of languages along the ethnic lines have exercised strong influences in the region. “The efforts of scholars and politicians to divide these peoples...into Bulgarians, Croats, Serbs, and, later, Macedonians, with

¹⁰⁹ Charles Jelavich and Barbara Jelavich, *The Balkans*, p. 2.

¹¹⁰ William T. Johnsen, *Deciphering The Balkan Enigma: Using History to Inform Policy*, p. 26.

¹¹¹ Serbo-Croatian is written in both Cyrillic and Latin. Serbs and Montenegrins use Cyrillic, while Croats and Muslims use the Latin script. Aleksa Djilas, *The Contested Country*, p. 3.

¹¹² Michael McAdams, *Croatia: Myth and Reality*, CIS Monographs, 1997, pp. 105-110.

language as chief consideration, was to lead to recrimination and hatred in the future.”¹¹³ What happened in the Balkans in the last decade is a confirmation of the above judgment.

D. CULTURAL DIVISIONS

Taking into consideration that culture is defined as “the body of customary beliefs, social forms, and material traits constituting a distinct complex of tradition of racial [ethnic], religious, or social groups”¹¹⁴, it is understandable the linguistic, religious, and ethnic clashes in the Balkans constitute the fundamental elements of the diversity and clash of cultures. Thus, violence is deep-rooted in the culture of the region.

The cultural differences started with the separation between Rome and Byzantium. The dividing border between Rome and Byzantium became the cultural dividing line between Occident and Orient. Even though a series of conquerors passed through the region and left their cultural indications, the key cultural gulf resulted from the clash of Ottoman and European cultures.¹¹⁵

Considering that the Balkans contains a mixture of Albanian, Croatian, Romanian, Ottoman, and Slav cultures and the fact that each of them has claimed for itself as being the major contributor in the region, it is clear that no one culture dominates in the Western Balkans. Moreover, the various cultures are exclusive in nature. It means that an individual cannot win a green card for membership if he does not fulfill all the obligatory prerequisites (religion, language, and ethnic origin). “Because Bosnians have been unable to develop either an independent culture or a culture that conforms to one or the other cultures in the region, they have been denied entrance into either.”¹¹⁶ This has shaped in the region a cultural mentality that can be defined as “us versus them”.

The main conclusion that comes out of this chapter is that the negative impact of ethnic, language, religion, and cultural divisions in the Balkans is an important element that needs to be taken into account in building up a strategy for de-Balkanizing the region.

¹¹³ Barbara Jelavich, *History of the Balkan: Eighteenth and Nineteenth Century*, Vol. I, p. 177.

¹¹⁴ Personal author Noah Webster (1758-1843), *Webster's Third International Dictionary*, Springfield, MA: Merriam-Webster, 1986, p. 552.

¹¹⁵ These two cultures have tremendous differences in government, religion, institutions, and customs. William T. Johnsen, *Deciphering The Balkan Enigma: Using History to Inform Policy*, p. 40.

¹¹⁶ Ibid, pp. 40-41.

The recommendations how to built reliable mechanisms that can overpass this negative impact will be provided in the last chapter.

IV. RECENT ROOTS OF CONFLICT: COLLAPSE OF BIPOLARITY, ECONOMIC DECLINE, AND SOUTH SLAV INSOLVENT NATIONALISM

The challenge of this epoch is to mesh the centripetal forces of economics with the centrifugal ones of politics¹¹⁷

At the beginning of 1991, the declarations of independence of two republics—Slovenia and Croatia—were a warning sign for the start of a bloody conflict over the question of how the Yugoslavia's borders would be redrawn. The jumble of lands and peoples once known as Yugoslavia gave shocking evidence that some of Europe's beloved hopes were only illusions.¹¹⁸ The multicultural and multinational experiment did not merely fail. It also exhibited the most inhuman and arbitrary violence amongst ethnic groups. Moreover, coming at the height of euphoria over the end of the cold war, the international community was faced with an unwelcome and unexpected set of tasks.

From the beginning, a powerful thesis for explaining the bloody conflicts in Yugoslavia has been its portrayal as a product of centuries-old ethnic hatreds between the region's peoples. Arguments introduced in the two previous chapters strongly support the ancient hatred thesis. The main weakness that refutes this thesis and the argument that violence has been a way of life in the region is the fact that Yugoslavia during the Cold War was a multiethnic and multi-national state in which people of different ethnic groups lived peacefully. Hence, besides the influence of the old roots in the conflict, which broke up Yugoslavia, the collapse of bipolarity and the economic crises, which gripped the country in the 1980s, had a strong impact on its descent into war.¹¹⁹ With the collapse of bipolarity, ex-communists sought legitimacy by appealing to nationalism. They saw nationalism as an opportunity to retain political power under new rules

¹¹⁷ Fred Bergsten, *The Economist*, September 11, 1993, p. 57.

¹¹⁸ The most important hope, from which all others flowed, was that Europe would be a zone of peace.

¹¹⁹ Former communist countries in Central Europe have managed their political transition without ethnic war. All of them suffered the pain of economic transition. Therefore, why did the disintegration of Yugoslavia lead to war and bloodshed? The answer is related to the intermingling of the old with current roots of conflict. Economic decline hurt a country, which was composed of six republics, five nations, three religions, two alphabets, eight main ethnic groups, and one party. That being the case, the outcome (different from the other communist countries in Balkans) was a bloody conflict.

requiring competitive elections. Economic crises created a “healthy” terrain for the rising of nationalism.¹²⁰

This chapter is composed of two main sections: First, it examines the impact on the Balkans of the disintegration of international order. Second, it explains the relationship between economic decline and the rise of insolvent nationalism and their combined effect on the conflicts in the Balkans.¹²¹

A. THE IMPACT OF THE COLLAPSE OF BIPOLARITY ON THE DISINTEGRATION OF YUGOSLAVIA

During the Cold War era, the Balkans became a sort of tampon zone in relations between the two blocks.¹²² Even though the techniques that superpowers employed for keeping errant states under control differed according to the ideological precepts of East and West, they both employed a combination of “carrot and stick” to avoid the anarchy within each block. Maintenance of balance in overall relations in European space implied the stability in Balkans, where each of the two great powers provided security for their own allies while Yugoslavia was left with a leading role in the non-alignment policy.

Considering that the military repertoires of the two great alliances—the North Atlantic Treaty Organization (NATO) and the Warsaw Treaty Organization (WTO)—included responses to the contingency of the breakup of Yugoslavia, it is understandable that if one side had intervened in a Cold War Yugoslav crisis, the competitive campaign and the balance of power principle would reject the abstention of the other side. Thus, the international politics of the Cold War contributed significantly to holding Yugoslavia together. It seems unlikely that, during the Cold War, the leaders of either Slovenia or Croatia would have made a break for independence had they thought that one

¹²⁰ Tom Gallagher, “Nationalism and Democracy in South-East Europe”, in Geoffrey Pridham and Tom Gallagher, *Experimenting with Democracy: Regime Change in the Balkans*, Routledge, 2000, p. 84.

¹²¹ “Insolvent nationalism” describes the conditions of a society in which the nationalist policies are not only perceived as a solution to economic stagnation but they are also carried out to the point destroying the society and the group itself. Maria Zarkovic Bookman, *Economic Decline and Nationalism in the Balkans*, pp. 4-5.

¹²² The most important line of confrontation between the two leading powers – USA and USSR—was that dividing the two German states. Thus, the central front was a priority, while the Balkans was left to a controlled development between the two great powers, with two non -block states, Albania and Yugoslavia.

consequence of their doing so could well have been East–West war.¹²³ Therefore, the Cold War, and the division of Europe into two rival alliances, was actually a force for stability. It kept a restraining hand on the boiling hatreds of unassimilated ethnic groups in the Balkans. Fear of the Soviet Union's intervention, and the iron hand of local communist authorities, ensured for nearly half century a deceptive tranquility in the Balkans. However, we are now realizing how fragile this tranquility was because it depended on control from the top rather than self-restraint from below.¹²⁴

Historically the Balkans as a region was never able to create a normal geopolitical configuration that would enable emergence of a center as a focal point to which the peripheral states could gravitate to receive some cultural, economic, and technological benefits. The traditional differences: cultural, religious, linguistic, ethnic, and political have prevented creation of institutions that could be used as a mediator or crisis management center. That being the case, the Balkans states, where such kind of centers never really existed, gravitated to powers that were out of their own geopolitical space (Russia, Germany, and France). The collapse of bipolarity left the region completely unprepared regarding security concerns, and , therefore, the dissolution of the balance between the two blocks resulted in a security vacuum.¹²⁵ Thus, the end of the Cold War clearly showed that the region was unsupplied with mechanisms of crisis prevention or resolution, and all the Balkan states were left standing alone in search for their new security umbrella.

As far Yugoslavia, the collapse of the Soviet Union accompanied with the collapse of Stalinist regimes in Balkans at the end of the 1980s meant the collapse of the maneuver which had formed a central component of the policies pursued over the preceding four decades by the Yugoslav's leader, Josip Broz Tito. Understanding that the

¹²³ Susan L. Woodward, *Balkan Tragedy: Chaos and Dissolution after the Cold War*, The Brookings Institution, 1995, p. 172.

¹²⁴ Ronald Steel, *Temptations of a Superpower*, Cambridge: Harvard University Press, 1995, pp. 66 - 67.

¹²⁵ During the Cold War era, Yugoslavia, as a non-aligned state with considerable international activities, did not succeed in becoming a geopolitical center of the Balkans. With the end of Cold War Yugoslavia started to disintegrate under its internal crises and wars initiated by Milosevic's regime. Bulgaria and Roumania were left without the security granted by the Warsaw Treaty. Radovan Vukadinovic, *Challenges to Security in South East Europe*, Copenhagen Peace Research Institute, October 2000, p. 4. Information Available Internet; <http://www.ciaonet.org/wps/vur02/>.

Western Powers needed Yugoslavia as an asset in the political conflict with the Soviet Union, Tito utilized the foreign economic aid and strategic environment to build up the country's stability.¹²⁶ Yugoslavia's geo-strategic importance and all the economic benefits that derived from this importance ended with the end of the Cold War. However, when the U.S. foreign policy dropped its traditional security priority from Yugoslavia and placed this country in the same category as other countries in the region, nothing was planned to fill this vacuum. Neither the European Community (EC) nor NATO welcomed the request for membership coming from Balkans' countries. In fact, the West embarked on a policy of differentiation between Balkans and the other Eastern Europe countries regarding the incorporation of these countries.¹²⁷ Moreover, wanting to move gradually in transforming cold war security alliances, the Western leaders were reluctant to act in Yugoslavia. Unprepared for the required actions, the EC strayed in its efforts to find a solution. This enabled the conflict to turn into a full-scale war in the center of the European continent. Thus, the collapse of Yugoslavia into nationalist regimes clearly exposed a crisis of Western Security regimes.

Two considerations explain why Europe was very concerned about stabilization of the situation in the region. First, this conflict of little significance had emerged as the most challenging threat to existing institutions. Second, Europe was swept by a huge wave of refugees, which transferred parts of the security problems out of the Balkan region itself. It is understandable that this transfer of crises and its impact on European security led to a more timely European reaction towards stabilization of the situation.¹²⁸ Furthermore, American policy, initially leaving the resolution of the conflict in former Yugoslavia to the Europeans, gradually started to take over the initiative and finally became the key factor in solving the security problems in the Balkans.

B. ECONOMIC DECLINE AND INSOLVENT NATIONALISM

Categorizing the Balkan countries based on the points of convergence of the economic models of development during the Cold War, divides them in two groups:

¹²⁶ Susan L. Woodward, *Balkan Tragedy: Chaos and Dissolution after the Cold War*, p. 22.

¹²⁷ The EC declared Poland, Hungary, and Czechoslovakia more ready for inclusion because the West thought that these countries were more committed to democratic reforms. *Ibid*, p. 150.

¹²⁸ *Ibid*, p. 2.

- First, Albania, Bulgaria, and Romania. During the Cold War, these countries were severe dictatorships with a very centralized economy. It means that the intellectual elite had a lack of knowledge of the functioning of the market economy. The state as a representation of the common interest was weak while the economic structures were vague.¹²⁹
- Second, former Yugoslavia, a socialist country, which deviated and tried to apply a different economic model consisting of so-called market socialism founded on workers' self-management. This model did not worked well because it was based on a coalition between enterprises and the authorities who often shared the same interests.¹³⁰ Thus, this model impeded the competitive behavior of the enterprises.

In the cases of Bulgaria, Albania, and Romania, with the demise of communism since the late of 1980s, the economic crisis manifested itself as a drop in the main macroeconomic indicators (see Table IV.1). These have been products of a process of a deep social, economic, and political transformation, expressing the phenomenon of transition.

Table IV.1. Economic Indicators of the Balkans States.

State	Growth (Percent [Year])	Unemployment (Percent)	Inflation (Percent [date])
Albania	5.8 (1989) -21.1 (1991)	NA	6 (June 1992)
Bosnia-Herzegovina	NA	NA	86 monthly (April 1992)
Bulgaria	5.8 (1988) -25 (1991)	13.5 (1992)	100 (1992)
Croatia	3.4 30 (1991)	20	40 monthly (Dec 1992)
Macedonia	-18 (Jan 1992)	20	70 monthly (May 1992)
Romania	0.8 (1987) -8.0 (1991)	8.7 (1992)	250 (1992)
Remain Yugoslavia	-0.5 (1989) -15 (1991)	19 (1991)	235 (1991)

From: Political Risk Services, IBC USA Publications, East Europe and Republics, July 1992
RFE/RL Research Report, January 15, 1992, 34. Transition, vol. 3, no. 7 (July 1992): p. 17.

¹²⁹ Anders Aslund, "Introduction: the Balkan Transformation in a Comparative Perspective," in Ian Jeffries, ed., *Problems of Economic and Political Transformation in the Balkans*, Pinter, London, 1996, pp. 1-4.

¹³⁰ Sjoberg Orjan and Wyzan Michael, "The Balkan States: Struggling Along the Road to the Market from Europe's Periphery", in *Economic Change in the Balkan States; Albania, Bulgaria, Romania and Yugoslavia*, London: Pinter Publishers, 1991, p. 8.

In the case of Yugoslavia, the roots of the economic crisis can be found earlier. In fact, they are a mixture of external and domestic forces. Thus, external factors such as soaring oil prices starting in 1973, heavy international lending, and the international debt crisis exacerbated the internal economic problems stemming from Yugoslavia's economic model. Particularly damaging was the failure of the efforts to find a reliable method for controlling inflation. By 1975, inflation had reached 30 percent.¹³¹ The rate of inflation rose accordingly, while the balance of trade deteriorated to the extent that it could not be covered with workers' remittances and tourism revenues. Furthermore, the increases in the price of oil and other imported goods, beginning in the early 1970s, exacerbated the deficit in the balance of payments. The 1970s ended with an increasingly intractable foreign debt. At the time of Tito's death in May 1980, Yugoslavia had a foreign debt of \$20 billion, the result of generous international loans because of Yugoslavia's strategic nonaligned position relative to the Cold War superpowers. Contributions from American banks during the 1970s flooded with petrodollars from the Organization of Petroleum Exporting Countries (OPEC), and the rise, in oil prices in the wake of 1973, contributed to the Yugoslav debt.¹³² That being the case, the government had no choice but to initiate a stabilization program consisting of tight monetary policy and direct controls on investment expenditures. This program, which started toward the end of 1979, was supported by a standby arrangement with the International Monetary Fund (IMF), concluded in May 1980. However, in early 1982 IMF negotiations unexpectedly took a serious turn for the worse when the IMF team, reflecting a change of policy in

¹³¹ Causes of inflation were uncontrolled government expenditure, the issuing of an increasing volume of currency, and the tendency for enterprises to run up large deficits. An attitude of irresponsibility seemed to affect all levels of Yugoslav society. The rise of oil prices after 1973 exacerbated the affect of internal causes. Fred Singleton, *A Short History of the Yugoslav Peoples*, London: Cambridge University Press, 1989, pp. 266–267.

¹³² The accumulation of resources in OPEC hands—the cartel held a \$68 billion surplus in 1974, parked in U.S. banks—created problems of finding moneymaking uses for the immense amount of money. Petrodollars recycling loans went to government and not to businesses. John R. Lampe, *Yugoslavia as History: Twice There was a Country*, Cambridge University Press, 1996, pp. 315–16. For more explanation, see David Kennedy, *What the Market Will Bear: The CIA and the International Debt Crisis*, written for the Intelligence and Policy Program at the Kennedy School of Government, Boston: Harvard University, 1991.

Washington, hardened its terms and bargaining position.¹³³ In fact, the lack of monetary discipline produced a dispersed authority over money, credit, and foreign exchange. Because global integration requires a unified domestic market, the IMF oriented Yugoslavia towards reintegration of the segmented economies of republics. Based on this policy, only price signals and opportunities for profit would define the movement of labor, capital, and goods across the republican borders. This forced the Yugoslav federal government to adopt a policy of asserting more control over the republics. It is understandable that the wealthier republics resisted this policy because they had little to gain from the federal union. Strengthening the federal case for increased financial authority at the center later in 1987 was a scandal that weakened the federal government and shook the republics' commitments to the federal regime.¹³⁴ Thus, the IMF pressure to re-centralize the Yugoslav economy fueled tensions between those Yugoslav politicians who favored a strong federal government and those who preferred decentralization of power to the republics. Moreover, the shrinking economic pie fueled animosity between Yugoslavia's different ethnic groups and reinforced social divisions. "In those poorer communities where job cuts were most severe...the employment requirements of proportionality and parity among national groups made ethnicity more salient rather than less."¹³⁵ The ethnic and political tensions eroded the Yugoslav middle class, which had provided a base of political moderation,

¹³³ In the 1970s, the IMF had encouraged the decentralization of Yugoslavia's economy. However, during the international debt crisis of the 1980s, IMF reversed course and urged Yugoslavia to re-centralize and re-orient its economy toward the manufacture of exportable products that would allow Yugoslavia to service its considerable foreign debt. Laura Rozen, "The Balkans: Failing States and Ethnic Wars", in *The Global Century: Globalization and National Security, Vol. II*. Edited by Richard L. Kugler and Ellen L. Frost. Washington: National Defense University Press, 2001, p. 1058.

¹³⁴ John R. Lampe, *Yugoslavia as History: Twice There was a Country*, pp. 323-24.

¹³⁵ Woodward, *Balkan Tragedy*, p. 56.

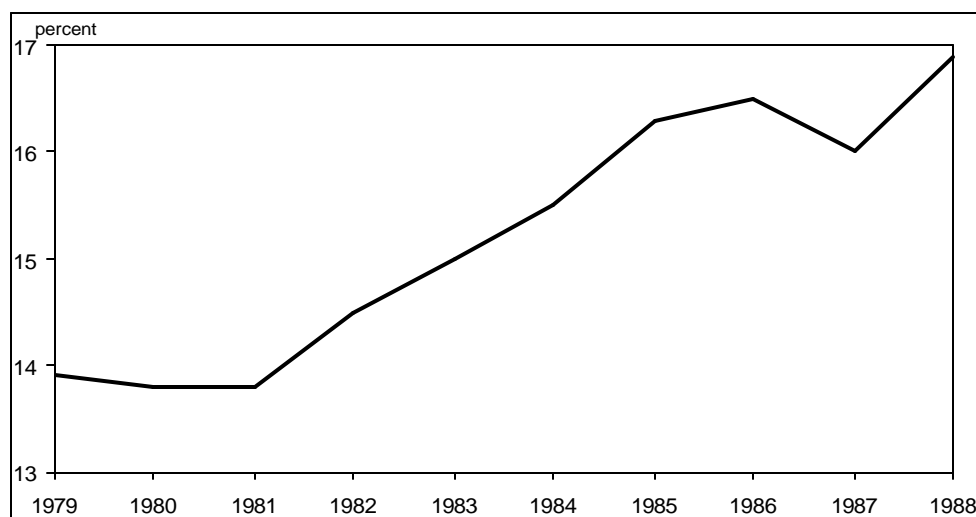


Figure IV.1. Yugoslav Rate of Unemployment, 1979-1988.

From: Jozse Mencinger, "Privredna Reforma i Nezaposlenost," in *Privredna Kretanja Jugoslavije*, vol. 3 (1990), p. 37.

and fueled the secessionist aspirations of the more economically successful Yugoslav republics in the prewar period.

On the other hand, beginning in 1975, remittances from workers temporarily employed in Western Europe began to fall as recession set in the west. Facing rising unemployment, Western European countries sent tens of thousands of Yugoslav guest workers home. It is understandable that their return to Yugoslavia exacerbated the economic crisis. For example, in the early 1980, these remittances had financed half of the Yugoslav trade deficit. By 1981, they provided only 25 percent of the deficit.¹³⁶ Moreover, the returning guest workers exacerbated unemployment's problems. Thus, unemployment in Yugoslavia rose from 14 percent in 1979 to 17 percent by 1986 (see Figure IV.1), and to more than 20 percent in the republics of Serbia, Montenegro, Macedonia, and Bosnia-Herzegovina (see Figure IV.2).¹³⁷

Accustomed for more than twenty years to abundant imported foreign goods, Yugoslavs in the 1980s faced shortages, long lines, and meager supplies on store shelves. From 1970 to 1980, inflation had averaged 18.4 per cent per year. It accelerated through

¹³⁶ Ibid, p. 49.

¹³⁷ Laura Rozen, "The Balkans: Failing States and Ethnic Wars", p. 1057.

the 1980s, ranging between 85 and 105 per cent annually in the early 1980s, reaching 800-900 per cent by the end of the 1980s, and averaging 123 per cent annually from 1979 to 1989 (see Figure IV.3).¹³⁸ Growth in the gross domestic product (GDP) fell from more than 5 percent in 1979 to less than 15 percent between 1989 and 1991, when war broke out between Croatia and Serbia (see Figure IV.4).¹³⁹

In multiethnic societies such as Yugoslavia in which sub-state divisions were drawn according to linguistic, religion, and ethnic lines, regional economic competition was interpreted as interethnic competition. Therefore, when economic conditions deteriorated, competition became nastier and fueled nationalist policy. In addition, perceptions of economic injustice among the different ethnic groups shaped the evaluation of the relative costs and benefits of belonging to a national union. During the economic crises, in which costs outweighed benefits, economic factors fueled ethnic, religion, and cultural factors to form a set of demands that included leaving the union.¹⁴⁰

Only a nation built on very strong and deep foundations can withstand rapid economic erosion. Yugoslavia was not such a nation. The single party state proved, in the long run, unable to deal successfully with the legacy of inter-republic tensions. The lack of an organized opposition party, which could cross republic lines and unite people once the ruling party had been discredited, also had influenced the dissolution of Yugoslavia. Moreover, in both Serbia and Croatia, demagogic leaders whose appeal to their constituents was based on ethnic loyalties seized power.

The failure of the federal leadership to face down the accelerating economic crisis exposed the power vacuum that the death of Tito had left at the federal level. This opened the way for new leaders in republics to assert themselves. In 1986, a younger man, Slobodan Milosevic of Serbia, seized this chance.

¹³⁸ Ramet, S. P., *Nationalism and Federalism in Yugoslavia, 1962-1991*, Bloomington: Indiana University Press, 1992, p. 239.

¹³⁹ Woodward, *Balkan Tragedy*, p. 55.

¹⁴⁰ Maria Zarkovic Bookman, *Economic Decline and Nationalism in the Balkans*, pp. 6-7.

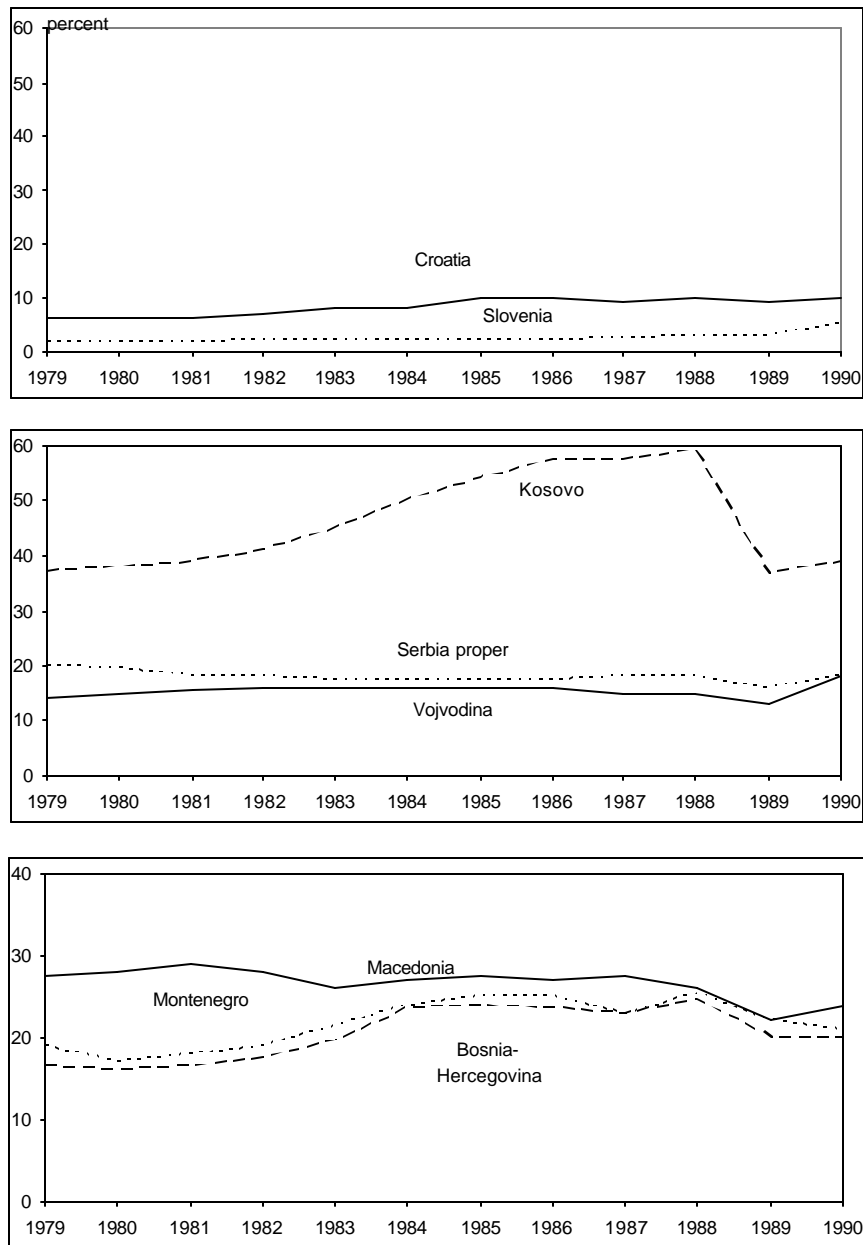


Figure IV.2. Unemployment Rates in Yugoslavia by Republic, 1979 – 90.
 From: For 1979 – 88, Joze Mencinger, "Privredna Reforma i Nezaposlenost," in *Privredna Kretanja Jugoslavije*, vol. 3 (1989), p. 27, Table 1. For 1989 and 1990, *Satisticki Godisnjak Jugoslavije* (1990).

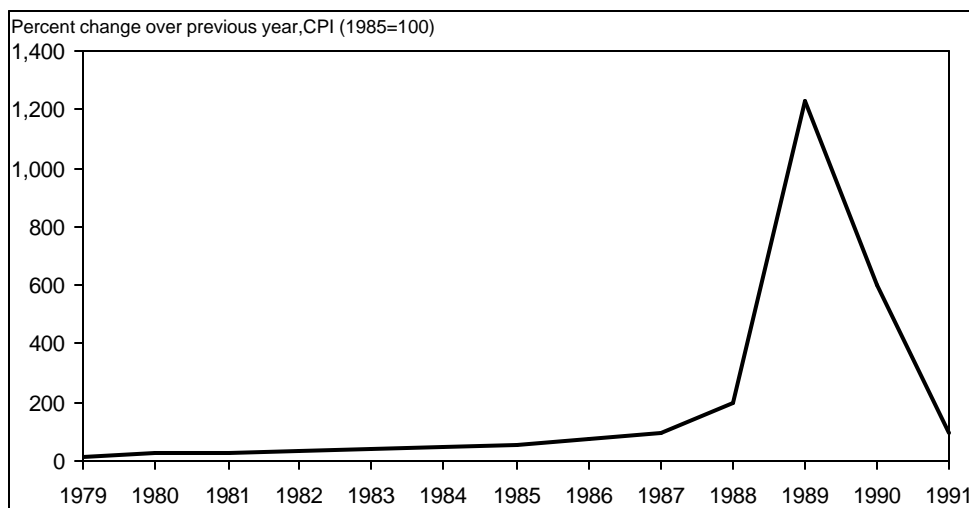


Figure IV.3. Annual Inflation Rates in Yugoslavia, 1979-91.

From: International Monetary Fund, *International Financial Statistics Yearbook*: 1992 (Washington: 1992), pp. 748 -49; and IMF, *International Financial Statistics* (Washington: November 1992), p. 566.

During 1988-89, Serbia's intelligentsia and Slobodan Milosevic's Serbian Communist party elite joined forces to encourage a national revolution to create a "unified Serbia" by tapping social and national discontent in the republic. The nationalist message hammered over and over again by Milosevic was the idea that if the Yugoslavian state disintegrated, whole sections of the Serbian people—in Croatia, in Bosnia, and in Kosovo—would be left to suffer under the control of other nations. Milosevic based his claims for a greater Serbia on the need to unite all Serbs in Yugoslavia into a single state.

The nationalist ideology of being threatened and reviled fueled Serbian mass movements. Slobodan Milosevic also mobilized Croatian Serbs by helping to organize meetings where they declared their demands for cultural and political autonomy. Insecurity was expressed in the Memorandum of the Serbian Academy of Sciences and Arts of 1986, which became the manifesto of the latest Serbian nationalist revival filled with the rhetoric of victimization. Based on these lessons, Slobodan Milosevic at Kosovo Polje in April 1987 gave the Kosovar Serbs his famous promise: "No one should dare beat you."¹⁴¹

¹⁴¹ John R. Lampe, *Yugoslavia as History: Twice There was a Country*, p. 340.

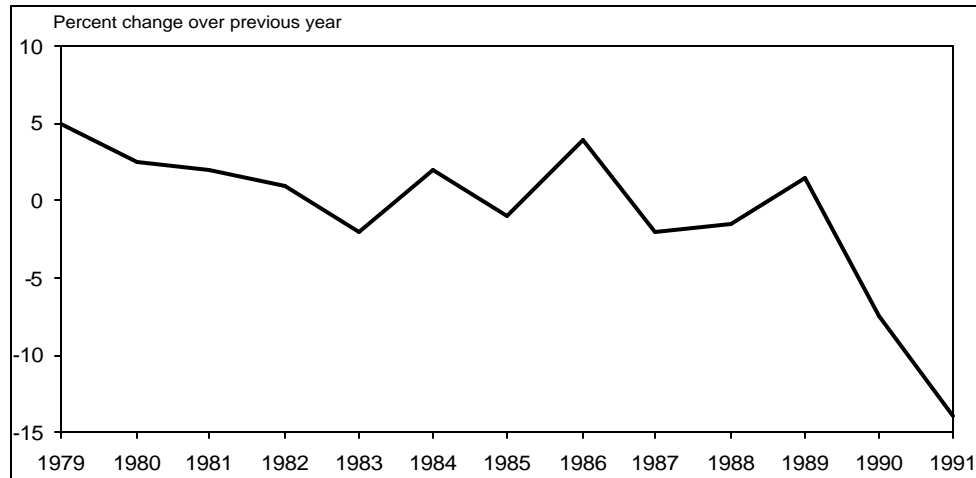


Figure IV.4. Growth of GDP in Yugoslavia, 1979-91.

From: World Bank, *World Tables 1991* (Washington, 1991), pp. 624-25; and *World Tables 1992* (Washington, 1992), p. 653. The 1991 figure is an estimate from United Nations Economic Commission for Europe, *Economic Survey of Europe in 1991-1992* (Geneva, 1992), Table 3.2.2, p. 60.

In 1988 and 89, Milosevic abolished the autonomy of the Kosovo and Vojvodina given in the 1974 constitution. Subsequently, he extended his promise of protection to the Serbian Diaspora in other republics of former Yugoslavia.¹⁴² Setting the Serbian nationalist rhetoric in full swing, during the 1990s, Milosevic was able to mobilize Serbs in the long and bloody series of wars leading progressively to the fragmentation of former Yugoslavia.

It looks strange that in Yugoslavia the ideology of communism—a doctrine that professed internationalist principles—slipped so easily into the dogma of nationalism. However, orthodox communism and aggressive nationalism have some similarities. Both ideologies are collectivist, emphasizing the group over the individual. Both are exclusivist, identifying outsiders as enemies. Moreover, both are radical, insisting that those enemies be eliminated, preferably by force. Thus, being discredited by the decline

¹⁴² However, nationalism in Serbia provoked the rise of nationalism in the other republics. For example, in Croatia, Franjo Tudjman, a former partisan and retired general turned extreme nationalist and established in February 1989 the Croatian Democratic Union (HDZ). Running a campaign for Croatian independence, his party won elections in April 1990. However, Tudjman's rhetoric antagonized further the Serbian minority. He talked of a "greater Croatia" and declared his happiness that his wife was "neither a Jew nor a Serb." Warren Zimmermann, *Origins of a Catastrophe: Yugoslavia and Its Destroyers*, Random House: Times Books, 1996, pp. 73-74.

of the economy, and scrambling to find a new source of legitimacy, the communists embraced dangerous form of nationalism.¹⁴³

In his book *Nationalism Reframed*, Rogers Brubaker identifies three distinct types of Central and East European nationalisms of the 1990s : the nationalizing nationalisms of newly independent states, the trans -border nationalisms of external national homelands and the minority nationalisms within the borders of the new national states.¹⁴⁴ Serbian nationalism markedly included Brubaker's triadic nexus because at the core of the Serbian Nationalism stood the desire to own a state, which would be a Serbian nation, defined in ethno cultural terms.¹⁴⁵ Furthermore, it was a clear manifestation of the intentions of Serbia as the "external national homeland" to Serbian minorities in Croatia, Bosnia and Herzegovina, and Kosovo, to absorb territories beyond its borders. The nationalism of the Serbs in Croatia, Kosovo, and Bosnia and Herzegovina corresponded to Brubaker's third category.

The Balkan economic crisis of the early 1990s shows itself in a wide variety of economic problems, including droops in economic growth, inflation, unemployment, and the proliferation of underground economies. Even though the countries in the region had experienced many crises in the previous decades, the crisis of the early 1990 was different. It was, in fact, graver and bigger. GDP dropped sharply during 1992 (Albania, -21.1 percent; Bulgaria, -25.5 percent; Croatia, -30 percent), while inflation soared (Bulgaria, 100 percent; Albania 120 percent; Romania 250 percent; Macedonia, 70 percent monthly; Bosnia and Herzegovina, 86 percent monthly), and unemployment climbed (Romania, 9 percent; the new Yugoslavia, 19 percent; Albania, 40 percent).¹⁴⁶

¹⁴³ Ibid, p. 40.

¹⁴⁴ Nationalizing nationalism involves claims made in the name of a core nation and defined in ethno-cultural terms. Homeland nationalism asserts the rights and protects the interests of its ethno-national kin in the other state. Thus, homeland nationalism is in direct opposition to and in dynamic interaction with nationalizing nationalism. Rogers Brubaker, *Nationalism Reframed: Nationhood and the National Question in the New Europe*, Cambridge University Press, 1996, pp. 4-5.

¹⁴⁵ Memorandum of the Serbian Academy of Arts and Sciences in the 1986 was an explicit expression of the Serbia's intentions for having a nation defined in ethno cultural terms. Carl-Ulrick Schierup, *Scramble for the Balkans: Nationalism, Globalism and the Political Economy of Reconstruction*, Macmillan Press LTD, 1999, pp. 53-55.

¹⁴⁶ For example, Albania and Romania economies had gone down since the 1980s while Yugoslavia was in a perpetual crisis since that time. Maria Zarkovic Bookman, *Economic Decline and Nationalism in the Balkans*, p.21.

In the 1990s, two major forces tore up the Balkans countries. These are economic decline and insolvent nationalism. Yugoslavia may be viewed as the epicenter of an earthquake that shook the entire region, and thus, elements of economic decline and insolvent nationalism were visible at this early stage across the region. While in the former Yugoslavia there was an interaction and convergence of economic decline and nationalism, which resulted in a bloody conflict, the other Balkans countries suffered only economic decline and they are still struggling with the transition from a centralized economy towards a market one.¹⁴⁷ For example, Romania and Bulgaria both faced economic difficulties associated with the collapse of communism. In these states, nationalist governments appealed to the ethnicity of the majority, while the multiparty system produced nationalistic political parties, which protected the right of ethnic minorities. In Romania, the Democratic National Salvation Front was renamed in July 1993 the Party of Social Democrats. In Bulgaria, the leader of the ruling party at the early stage, Zhelyu Zhelev was so strong that he was accused of politically re-communizing the country. However, at this time, they did not openly foster territorial claims.¹⁴⁸

To sum up this chapter, the recent roots of conflicts in Yugoslavia can be found in the country's failure to adapt to the new circumstances. This contributed to rising hostilities between ethnic groups fighting for a share of an ever-shrinking economic pie.

In addition, Yugoslavia's exposure to the international economic crisis in the 1980s and the reforms advised by international institutions, particularly re-centralization of the Yugoslav economy accelerated the forces leading to country's disintegration.

¹⁴⁷ Taking into consideration the deep ethnic, linguistic, cultural, and religious divisions in the former Yugoslavia that we have discussed in the previous chapters, it is understandable why economic decline fueled insolvent nationalism.

¹⁴⁸ Milica Zarkovic Bookman, *Economic Decline and Nationalism in Balkans*, pp. 20-27.

V. CURRENT ECONOMIC SITUATION AND CHALLENGES FOR SOUTH EASTERN EUROPE

Three years after the end of NATO's intervention in Kosovo, South East Europe (SEE) remains a volatile, insecure and economically depressed region. Support for democratic institutions is low, corruption is endemic, and public expectations are pessimistic. There are clearly differences in the situations of the individual countries but as a whole, the region is still viewed as an unstable and insecure place for business and investment.

The Kosovo crisis and its aftermath was, in some ways, a defining event for the region. First, the crisis threatened all SEE countries, although to different degrees, underlining their interdependence. Second, the international community decided to follow a regional approach in assisting these countries in coping with the crisis and building the peace that followed. This approach concluded with the creation of the Stability Pact for South East Europe (the Cologne document of June 10, 1999). Almost at the same time, in May 1999, the European Union (EU) established the Stabilization and Association process to provide a clear path for the integration with the EU of those South East European countries that did not have Europe Agreements.¹⁴⁹ However, the post conflict reconstruction has not spurred growth, unemployment has risen, and security tensions in Macedonia, Bosnia, and Kosovo still persist. The Stability Pact has not delivered practical results and the lack of a result oriented economic strategy is evident. Therefore, the peoples of South Eastern Europe and the international community must take a comprehensive and forward-looking approach to the current situation if those expectations are not to remain unfulfilled. In this context, among the other issues, the economic revival is a crucial one. Unless this issue is addressed quickly and decisively, the potential for renewed conflict remains serious.

The focus of the chapter is:

¹⁴⁹ *Building Peace in South Eastern Europe: Macroeconomic Policies and Structural Reforms Since the Kosovo Conflict*, A joint International Monetary Fund-World Bank Paper, 2001, Information Available Internet, www.imf.org/external/pubs/ft/kosovo/102501.pdf.

- To survey the current economic situations in South Eastern Europe Countries
- To analyze and demonstrate lessons learned from the deep political and economic crises in Albania.
- To look at the key challenges that the region its actually facing.

A. THE RECENT ECONOMIC SITUATION IN SOUTH EASTERN EUROPE COUNTRIES

What is the reality of South Eastern Europe? The total population is 56 million, about 84 percent of the population of the five Central European countries (CEE) and 15 percent of the European Union's population of 375 million.¹⁵⁰ The total GDP is about USD 90 billion and is slightly more than one-third of the five CEE countries. The GDP *per capita* is less than USD 2000. Per capita incomes in the SEE countries span a wide range from US\$4,520 per capita in Croatia—which is almost equivalent to the CEE average—to US\$810 per capita in Albania.¹⁵¹ However, in almost all SEE countries, official GNP figures are likely to be underestimated due to the large informal sectors in these economies.

The Political and Economic developments in the post-communist countries in the SEE have been disappointing. The main reasons are:

- Security concerns.
- Slow or indecisive transition

1. Security Problems

There is a large area of contested territory in the region. The area consists of the whole Kosovo and Bosnia and Herzegovina and parts of Montenegro, Serbia and FYR Macedonia. These entities are not really states because they have no clear borders, which is the main characteristic of a state. Therefore, Bosnia and Herzegovina is a long way from being a state, Kosovo is not a political unit at all, and Montenegro is mid-way between a state and a federal unit. That being the case, it is understandable that the overall security of the other countries in the region (Bulgaria, Albania, and Romania),

¹⁵⁰ Central European countries are: Poland, Hungary, Czech Republic, Slovenia, and Slovak Republic.

¹⁵¹ *The Road to Stability and Prosperity in South Eastern Europe: A Regional Strategy Paper*, The World Bank, March 2000, p. 10, Information Available on the Internet, www.seerecon.org/RegionalInitiatives/WBRegionalStrategy/contents.htm.

though not directly threatened, has been affected via the increase in negative security spillovers and in the delay in the integration of the region into the Euro-Atlantic security structures. All of these have impacted the internal security of the all SEE countries, making difficult for them to move decisively towards the establishment of the rule of law.¹⁵²

2. Slow or Indecisive Transition

South Eastern Europe has been the least developed region of Europe. Therefore, the initial conditions at the onset of the transition process were less favorable than those in others transition countries in Europe. Furthermore, while countries of CEE decided, in the beginning, to give the transition a chance, the countries of SEE chose to give priority other issues. For instance, Serbia decided to fight and it is understandable that in the areas where wars were fought, the transition had no possibility of working. In Albania, internal tensions and legal deficiencies led to an institutional meltdown while in the cases of Croatia and Macedonia, nation-building took precedence over transition.¹⁵³ In Bulgaria and Romania, transition was delayed and implemented without a sustainable commitment. The reasons are not the same in both countries. In the case of Romania, the public was not ready to give up on certain aspects of socialist economic policies (mainly price controls and subsidies to ailing enterprises). Thus, Romania started the implementation of the reform's elements when the economic situation had already worsened considerably. In the case of Bulgaria, the reasons for a slow transition are related to unfavorable institutional development or rather to the lack of such development. The essence of transition is a fundamental institutional change from non-market and non-democratic institutions to markets and democracy. From this viewpoint, it is clear that a slow transition means the collapse of the existing institutions without a simultaneous introduction of substitutes.¹⁵⁴

¹⁵² *Task Force on Economic Strategy for South Eastern Europe*, EAST WEST INSTITUTE, June 2000, p. 9, Information Available on the Internet, www.wiiw.ac.at/balkan/reports00.html.

¹⁵³ Ibid, p. 10.

¹⁵⁴ For more information about the inferior macroeconomic and microeconomic performances in some countries in transition by the process of institutional disorganization see, Blanchard, O., M. Kremer *Disorganization*, *Quarterly Journal of Economics*, 1997, 112: pp. 1091-1126.

3. Economic Performance in South Eastern Europe

Having a better understanding of the economic situations of the SEE countries requires making some remarks on the relevance of the main economic indicators, which have considerable influence on the description of the situation in the SEE.

a. Inflation and GDP

Keeping inflation under control is a major goal of economic policy because it creates a useful terrain for achieving sustainable economic growth. However, when low inflation coexists with very high unemployment this is a clear sign that something is wrong. Even though the informal sector is a means for mitigating the pains of unemployment, it cannot be justified because it introduces other issues through the back door—namely, the transparency of the economy and rules of behavior. Taking into consideration that in South Eastern Europe the informal sector is fueled by the lack of a legal framework and by weak institutions, it is understandable that for these countries the shadow economy presents a big threat for their societies.¹⁵⁵

Economic growth is a key element during the transition. Successful economic growth creates possibilities not only for responding to the normal demands of citizens but also for judging economic performance during the transition. However, it is very important to keep in mind that there exists a clear distinction between growth and recovery. Only investment in capital goods and technological transfer are indicators that growth is occurring along with recovery. Modern development theories treat eliminating restriction on foreign trade and foreign investment as the basis for encouraging growth in economies in transition.¹⁵⁶

The decade of transition in South Eastern Europe has produced more or less negative economic results. Production has declined, de-industrialization has been significant, and stability has been unsustainable. The main reasons for the poor economic performance of the SEE countries stem mainly from following sources:

¹⁵⁵ Informal sectors also exist in such rich countries as Italy, Greece, and Spain. However, existing legal framework and consolidated institutions in these countries are important barriers for shrinking informal parallel sectors and forging formal sectors. Daniel Daianu, *South Eastern Europe Revised? Can Economic Decline be Stopped?* The Institute for Security Studies: Western European Union, October 2000, p. 12, Information Available on the Internet. www.iss-eu.org/occasion/occ21.pdf.

- the relative economic backwardness of most of the region, rooted in its history¹⁵⁷
- the SEE countries started the transition from a position where institutions were weak, political uncertainty was high, and civil societies were fragmented
- while the CEE countries face the problem of transition, the problem that the SEE countries face is a combination, not the same for each country, of development and transition¹⁵⁸
- the dissolution of the former Yugoslav Republic and its spillover disrupted economic activity in all SEE countries¹⁵⁹
- rapid destruction of manufacturing capabilities without substituting growth in services
- the proliferation of organized crime and corruption

4. **Current Economic Situation**

a. GDP

Domestic policies and the support of the international community prevented deterioration of the macroeconomic situation as a result of the Kosovo crisis. Despite significant differences among the countries, the region as a whole emerged from the crisis well placed to benefit from the new environment of peace and stability. The civil crisis in Macedonia significantly retarded the economic development, but its impact did not spill over to the other countries. With the exception of Macedonia, economic growth in South Eastern Europe rebounded in 2000 and 2001, averaging some four

¹⁵⁶ Rodrik, D., *Foreign Trade in Eastern Europe's Transition*, in: O. Blanchard, K. A. Froot and J. D. Sachs, *The Transition in Eastern Europe – Vol. 2: Restructuring*, NBER, 1994, pp. 319 -52.

¹⁵⁷ For example, in 1937, income per capita was at \$440 in Great Britain. The corresponding estimates for Bulgaria was \$75. A. Gelb and C. Gray, *The Transformation of Economies in Central and Eastern Europe*, The World Bank 1991, p. 65. See also D. Chirot, (ed.), *The Origins of Backwardness in Eastern Europe*, Berkeley: University of California Press, 1989.

¹⁵⁸ The main indicators of the under-development in SEE are: low GDP *per capita* (less than USD 2,000), low level of industrialization (the contribution of industry to countries' GDP ranges from 10 to 30%), significant levels of agricultural production (10 to 60%), low-skilled services, and export structures that consist mainly of raw-materials, agricultural products, and labor-intensive products. *Task Force on Economic Strategy for South Eastern Europe*, p. 4.

¹⁵⁹ Furthermore, the break-up of Yugoslavia greatly affected the economies of Albania, Bulgaria, and Romania because the international community imposed sanction against Milosevich. The sanctions cut off important markets and transit routes for these countries. *The Road to Stability and Prosperity in South Eastern Europe*, p. 37.

percent year-on-year in the region as a whole in the first half of 2001 (main economic indicators for South Eastern Europe are shown in appendix 1).¹⁶⁰

b. Unemployment

Registered unemployment in several SEE countries is easily the highest in the entire EC region. Registered unemployment in FR Yugoslavia, Macedonia, and Croatia was, in 2001, respectively 35, 32, and 22 percent. However, “unemployment data in transition economies need to be treated with caution, as many registered unemployed work in the informal economy. This is offset partly by the non-registration of the genuinely unemployed, and the removal of people from the unemployment roles upon exhaustion of benefits.”¹⁶¹

c. Inflation

Inflation in all SEE countries continued in 2000-01 to be dominated by adjustments in administrative prices as well as imported energy. For example, in FR Yugoslavia, price liberalization was the main factor that inflation reached 113 percent in December 2000. While in Croatia, excise tax increases and electricity prices accounted for over a third of the country’s 7.4 percent inflation during 2000.¹⁶²

d. Banking Systems

Lack of competition and State interference are major problems of the banking systems in the SEE region. Excluding Macedonia, all SEE countries’ banking systems have a large proportion of assets controlled by state-owned banks which are generally under ongoing restructuring and privatization programs. Banking sector liberalization in all the SEE countries has led to a rapid proliferation of small and poorly supervised private banks, whose failure could pose systemic risks.¹⁶³

¹⁶⁰ Real GDP in Macedonia declined during the same period because of the insurgency crisis. *Building Peace in South Eastern Europe: Macroeconomic Policies and Structural Reforms Since the Kosovo Conflict*, p. 9.

¹⁶¹ *The Road to Stability and Prosperity in South Eastern Europe: A Regional Strategy Paper*, p. 31.

¹⁶² *Building Peace in South Eastern Europe: Macroeconomic Policies and Structural Reforms Since the Kosovo Conflict*, p. 10.

¹⁶³ Enforcement of bankruptcy law is a major area of concern across the region. There are real problems with the efficiency and effectiveness of liquidation proceedings. *The Road to Stability and Prosperity in South Eastern Europe: A Regional Strategy Paper*, pp. 40-41.

e. Private Sector

Estimating the size of the private sector in transition economies is a difficult task because many firms operate in the informal economy in order to evade taxes, registration requirements and other costs of doing legitimate business. “In some countries of SEE, the informal economy may account for nearly one-half of economic activity.”¹⁶⁴ The percentage of the private sector in GDP is given in the Figure V.1. However, in Bosnia and Herzegovina and FR Yugoslavia, the states retain a dominant share in economic activities. The rise in private sector activity has come largely from the increased rate of privatization over the past two years. Besides Bosnia and Herzegovina and FR Yugoslavia, the other countries have accomplished the small-scale privatization. Based Commonwealth of Independent States (CIS) on the EBRD indicator.¹⁶⁵ Since then, however, there has been a significant acceleration and preliminary estimates suggest that the SEE region has now overtaken the CIS on the EBRD indicator.

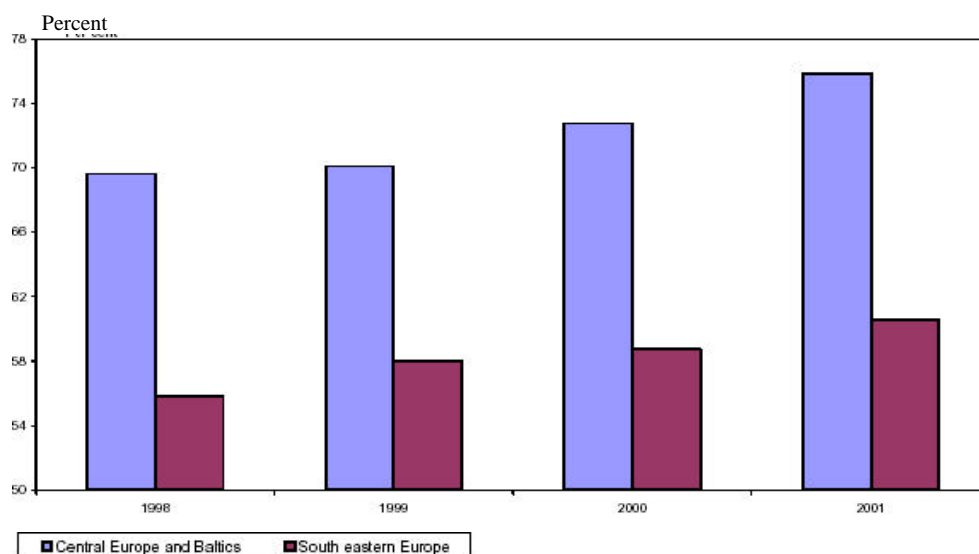


Figure V.1. Private Sector Share in GDP, 1998-2001.
From: EBRD Database

¹⁶⁴ *Private Sector Development and the Role of EBRD in South-Eastern Europe*, European Bank for Reconstruction and Development, October 2001, p. 4, Information Available on the Internet, www.seerecon.org/Calendar/2001/Events/src/ebd_psd_in_see.pdf.

¹⁶⁵ Ibid. p. 5.

f. Trade

The effects of the region's instability over the last decade are clearly seen in its performance on trade and investment. Actually, trade and investment policies are not liberal. While exports from central Europe have more than doubled over the past ten years, the exports from the SEE countries have actually shrunk by one third. In FR Yugoslavia exports fell from over \$4 billion in 1990 to less than \$2 billion in 2000 and in Bosnia and Herzegovina they fell over the same period from just under \$2 billion to \$675 million in 2000.¹⁶⁶ Trade and investment face formal barriers among Kosovo, Montenegro, and Serbia because of the disintegration of the common monetary, payment, and tariff systems (data for external trade are shown in appendix 2).

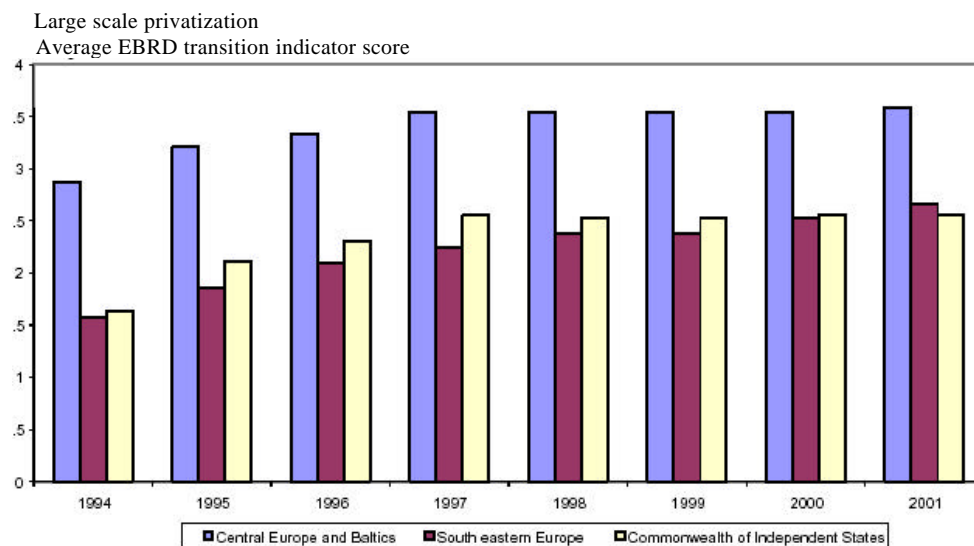


Figure V.2. Progress in Large Scale Privatization, 1994-2001.
From: EBRD Database

g. Aid Dependence

Several economies in the region survive only due to massive assistance from the international community. For example, the economy of Bosnia and

¹⁶⁶ CARDS Assistance Program to the Western Balkans: Regional Strategy Paper (2002-2006), European Commission, p. 12. Information Available on the Internet, www.seerecon.org/Calendar/2001/Events/src/ec_cards.pdf.

Herzegovina is kept from collapsing with huge inflows of aid and credits.¹⁶⁷ Albania and Macedonia also depend significantly on foreign assistance. However, when the dependence on foreign finance becomes chronic, this has negative long-term economic consequences.¹⁶⁸

The region can be easily classified as being made up of distressed economies based upon these considerations:

- the high level of unemployment in the region
- problems in the banking sectors
- economic dependency on international aid
- formal and informal trade barriers
- high level of corruption and organized crime

B. LESSON LEARNED FROM THE ALBANIA CRISIS

After 45 years of isolationism, Albania's economy is making the difficult transition to a market economy. In the beginning, after the collapse of the centrally planned system (1990), all the Albanian macroeconomic indicators sharply deteriorated. Output fell by nearly half between 1989 and 1992, and inflation hit triple digits. However, from 1993 to 1996, the country was regarded as a model in the Balkans for progress in macroeconomic stabilization and ongoing reform. During 1993-95, GDP growth averaged close to 10% while inflation fell to a single digit (see Table V.1).

The collapse of financial pyramid schemes in early 1997, which had attracted deposits from 80% of the Albanian population, triggered social unrest, impoverished thousands of people, led to a severe economic regression, and undermined the confidence of the population in financial services. What lessons can be drawn from 'successful' economic growth and the spectacular collapse of Albanian macroeconomic indicators? In this matter, I will try to demonstrate the origins of the political and economic collapse in 1997. I consider this very important because the political, economic, and social consequences of this crisis were not only unprecedented but also profound.

¹⁶⁷ Task Force on Economic Strategy for South Eastern Europe, p. 33.

¹⁶⁸ This would be a very bad type of *Dutch Disease*, which refers to the consequences coming from a "bad" dependency on foreign aid.

Table V.1. Basic Economic Indicators of Albania, 1991–98.

	1991	1992	1993	1994	1995	1996	1997	1998
	(Percent change)							
Real GDP	-28.0	-7.2	9.6	9.4	8.9	9.1	-7.0	8.0
Retail prices (during period)	104.1	236.6	30.9	15.8	6.0	17.4	42.1	8.7
	(In percent of GDP)							
Saving-investment balance								
Foreign saving	19.7	57.1	28.7	14.3	9.7	11.5	14.3	8.3
Domestic saving	-13.5	-51.9	-15.5	3.6	8.3	4.0	1.7	7.7
Public	-27.4	-21.9	-14.1	-10.6	-6.5	-9.0	-10.8	-8.1
Private	13.9	-30.0	-1.5	14.2	14.9	13.0	12.4	15.9
Investment	6.1	5.2	13.2	17.9	18.0	15.5	16.0	16.0
Public	6.1	4.0	9.5	8.6	8.5	4.5	4.0	5.2
Private	0.0	1.2	3.7	9.3	9.5	11.0	12.0	10.8
Fiscal sector								
Revenues	31.7	23.5	25.7	24.5	23.9	18.3	16.9	20.3
Expenditures	62.2	44.0	40.2	36.3	34.3	30.3	29.4	30.7
Overall deficit	43.9	20.3	14.4	12.4	10.3	11.7	12.6	10.4
Domestically financed deficit	43.9	20.0	9.1	7.0	6.6	10.6	10.8	6.4
Monetary indicators								
Broad money growth (in percent)	...	...	75.0	40.6	51.8	43.8	28.4	19.9
Growth in private sector (in percent)	...	...	...	61.4	15.9	30.5	19.0	15.8
Velocity of circulation	...	...	3.68	2.83	2.22	1.97	1.92	1.94
Interest rate (3 months deposits)	...	...	14.0	7.0	10.0	18.5	26.0	16.5

From: Albanian authorities and Fund staff estimates

1. Economic and Political Background to the Emergence of Pyramid Schemes

Albania inherited from its communist system an industrial sector that was under-funded and inefficient. The collapse of the planned economy substantially reduced the industrial infrastructure. From 1993 to 1996, the World Bank, IMF and financial aid were instrumental in achieving a very ‘impressive’ macroeconomic recovery. However, apart from the successful privatization of the agriculture, the achievement has been

superficial.¹⁶⁹ By early 1997, it was clear that many problems had not been solved. The financial sector remained underdeveloped and the apparent economic success largely was realized from remittances of Albanian workers abroad and large-scale smuggling. Indeed, with an under-developed banking sector unable to satisfy a growing private sector demand for credit, an informal credit market financed by remittances grew and turned into pyramid schemes. The approach of parliamentary election in May 1996 led the government to indulge in pre-election wage increases and to put off introduction of a Value Added Tax (VAT). Therefore, the budget deficit and inflation began to rise again. The ruling Democratic Party won elections but international community interpreted them as being manipulated. From this point on, the government's political authority was fragile, and its will to make difficult decisions limited. This was to have significant implications for the unfolding pyramid scheme crisis.

2. Problems in the Financial Sector

One of the most important causes of the growth of the Pyramid scheme phenomena was the inadequacy of the formal financial system. The state banks (holding over 90% of deposits) were not reliable intermediaries of saving, and private banks were not particularly interested in attracting domestic currency deposits. They had focused their attention mostly on trade financing. The problem in the state bank was not low interest rates but inadequacy of the payment system.¹⁷⁰ Thus, the public tended to hold an unusually high proportion of their financial assets in cash and was on the outlook for alternative investment opportunities.

3. Informal Credit Markets and Pyramid Schemes

The authorities generally tolerated an informal credit market. The informal market consisted partly of foreign exchange dealers (mostly not licensed) and partly of a number of companies taking deposits and making loans. These companies were illegal, since they were never licensed to take deposits. They grew out of a credit system based not only on private loans from migrant workers to friends and family, but also on loans

¹⁶⁹ A series of reforms since 1991 has transformed Albanian agriculture. Under private ownership, agriculture experienced a rapid growth and become a key motor for economic recovery.

¹⁷⁰ From mid-1993 onward, the interest rates were consistently above the prevailing rate of inflation. In September 1996, the average completion time for payment transactions between accounts at different branches of the same state-owned bank was 5-6 days. Jarvis, Chris. *The Rise and Fall of the Pyramid Schemes in Albania*. p. 3, Information Available on the Internet: www.netec.mec.ac.uk/.

from smuggling activities. For the authorities, IMF and the World Bank, it was difficult to see the vital difference between the informal credit market and the pyramid schemes.¹⁷¹ It was so, because they both operated on the premise that there were profitable opportunities for investment in small business in Albania. Both the informal credit market and the companies that invested on their own behalf drew resources from domestic saving and from flows of remittances estimated at about US\$375 million a year (about 15% of GDP). The IMF and the World Bank initially treated the companies that invested on their own account as part of the informal credit market. Thus, an IMF mission to advise on financial sector problems at the end of 1995 focused mostly on the possibilities for improving the formal financial system by integrating the most positive elements of the informal market. While outside observers raised concerns about the possibility of criminals operating in the market, they did not pick up the true nature of the large companies operating at this time, and the scope of their activities, until mid-1996.¹⁷² In the second half of 1996, mania took hold. Most of the companies raised their interest rates from 10% to 30% a month.¹⁷³ People sold their houses and apartments to

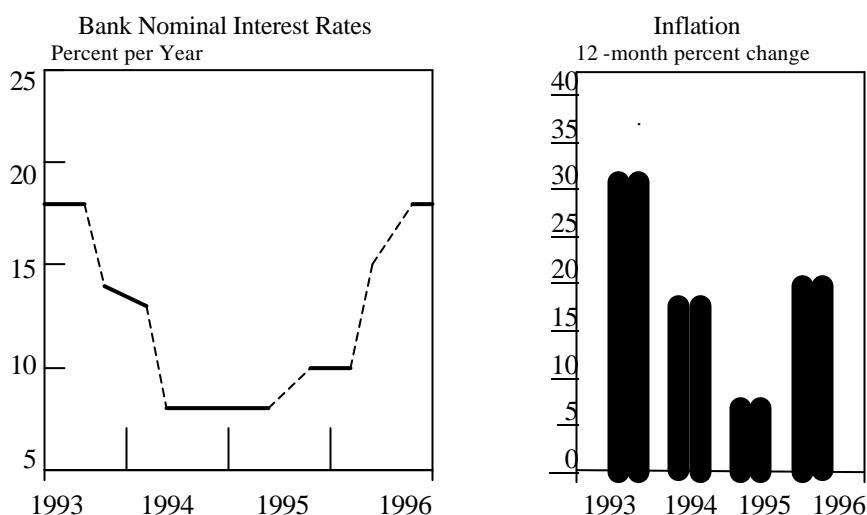


Figure V.3. Albania: Interest Rates and Inflation.

From: National Authorities

¹⁷¹ **Pyramid schemes** work on the principles that money paid in by later investors is used to pay artificially high returns to earlier investors. When the interest and principal of the old investor exceed the money that the scheme is able to attract from new investors, the scheme collapses.

¹⁷² Jarvis, Chris, *The Rise and Fall of the Pyramid Schemes in Albania* .p. 6.

¹⁷³ Interest rates in the formal financial sector also rose during this period (see Figure V. 3 and V. 4).

invest in the schemes; farmers sold their livestock. The mood is vividly captured by a resident who said that Tirana (capital of Albania), in the autumn of 1996, smelled like a slaughterhouse, as farmers drove their animals to market to put the proceeds in the pyramid schemes.

Through all of this, the government was a passive observer. When the Secret Service suggested that some of the companies might be surviving by laundering money for the Italian Mafia, the President himself came to their defense, arguing that these were legitimate and successful companies.

The IMF and World Bank did give increasingly strong warnings about the schemes in the course of 1996, but these warnings were not heeded and may have been too late to do much good in any case.¹⁷⁴

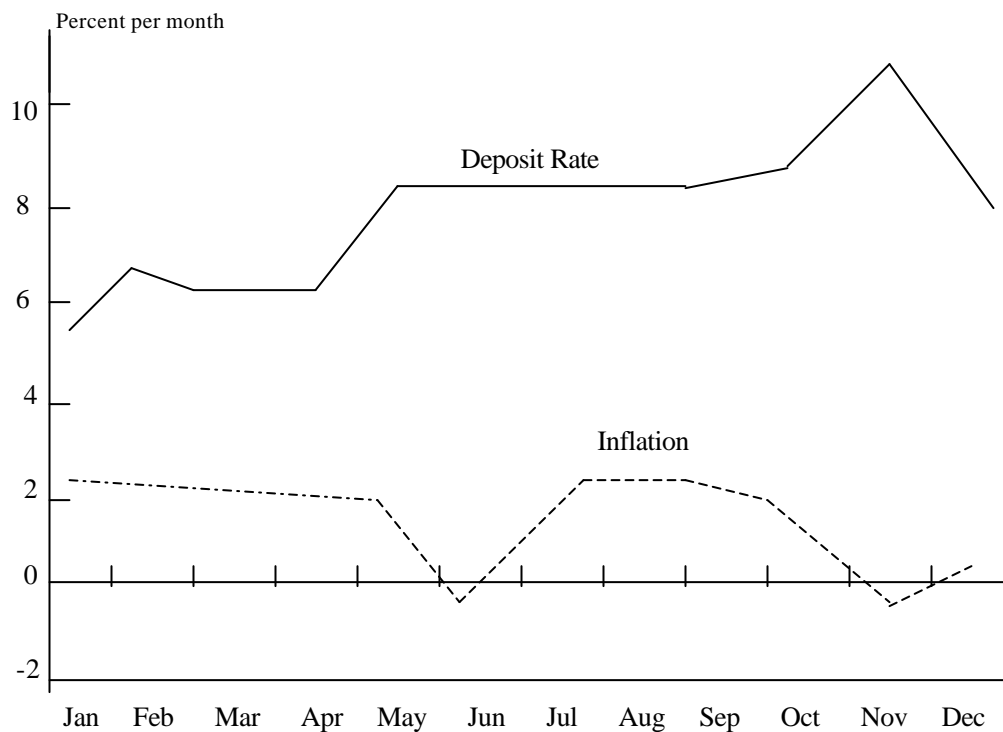


Figure V.4. Albania: Informal Market Interest Rates and Inflation in 1996
From: National Authorities

¹⁷⁴ Only in August 1996 was a strong warning given.

4. Collapse

In October 1996, in Washington, the IMF and World Bank repeated their warnings, finally producing a public warning from the Minister of Finance. Press and public reaction was mostly negative. The IMF was accused of trying to close down Albania's most successful firms. Finally, in November, one of the companies defaulted on its payments and the collapse began.

It took four months for the remaining pyramid schemes to collapse, bringing down with them the Democratic Party government and plunging Albania into anarchy.¹⁷⁵

The government initially tried to limit the damage caused by the pyramid schemes and belatedly took some important measures. Most important, throughout the violence, the government stuck firmly to the principle that depositors would not be compensated for their losses from the budget.¹⁷⁶ This crucial and courageous decision, which was endorsed by the opposition, made economic stabilization after the crisis much easier.

C. LESSONS FOR THE FUTURE

The pyramid schemes were not a product of circumstances unique to Albania. The isolation of Albania until recently and the population's unfamiliarity with market institutions may explain the mania that gripped population in 1996. Pyramid schemes have been especially prevalent in transition economies in recent years (Caritas in Romania and smaller schemes in Bulgaria and the Czech Republic have come to light) but they also exist in industrial countries.¹⁷⁷ They rarely come to public attention in industrial countries because:

- There are more people in these countries prepared to point out the difference between a credible and an incredible rate of return
- A better law enforcement prevents them from reaching a newsworthy size

¹⁷⁵ In January 1997, two companies declared bankruptcy triggering riots. As the riots intensified and spread, the remaining schemes ceased payments.

¹⁷⁶ The measures taken later by the government proved to be too little, too late. The government's authority, shaky since the May 1996 elections, had evaporated, and on March 8, 1997, it resigned. By this time, Albania was in chaos. The army and police had mostly deserted. By mid-March, armories were being looted in the south by rioters and in the north by the President's supporters. Evacuation of foreign nationals and mass emigration of Albanians to Italy began. When Tirana itself fell into civil disorder the president agreed to hold new parliamentary elections by the end of June, and an all-party interim coalition government led by members of the former opposition Socialist Party was appointed

¹⁷⁷ Jarvis, Chris, *The Rise and Fall of the Pyramid Schemes in Albania*. p. 26.

As we have already seen, some of the conditions that create possibilities for rising pyramid schemes in transition economies are:

- An inadequate banking system
- An unclear legal system
- Poor governance

Moreover, the Albanian population, poor and conscious of the wealth of neighboring countries like Italy, was more than usually susceptible to the promises of the pyramid scheme operators. The Albanian experience is a salutary reminder, for transition economies, of what can happen when you slip to undertake bank reform, to enact good legislation, and to improve governance.

D. CHALLENGES FACING THE SEE

Of the many challenges facing the SEE, the following ones are the most significant:

- Determining the future status of Kosovo, Montenegro and Bosnia
- Building up reliable mechanisms that do not allow the transformation of political, social, economic, and interstate problems into ethnic conflicts
- Realizing a greater commitment to transition
- Enforcing the rule of law
- Macroeconomic stabilization
- Completing structural reforms
- Fiscal consolidation
- Eliminating all kinds of barriers to trade and development which exist in the region and between the region and the outside world
- Completing the process of liberalization, privatization, and tax reform
- Restructuring the human capital
- Improving infrastructure and the environment¹⁷⁸
- Integration into Europe

To sum up, this chapter explained the current economic problems in the SEE and the main security concerns that have been the main obstacles to economic development

¹⁷⁸ Due to collapsing budgets, the countries in the region cannot finance the environmental problems. Lack of a modern infrastructure creates problems in profiting from globalization and investments.

and successful transition to a market economy in the region. We dealt with the Albanian political and economic crisis of 1997 that resulted from the collapse of financial pyramid schemes in early 1997 that triggered social unrest, destroyed the armed forces, impoverished thousands of people, led to a severe economic regression, and undermined the confidence of the population in financial services. Current economic situation and the challenges that the region is facing provide a useful track for developing the necessary recommendations.

VI. RECOMMENDATION AND CONCLUSION

The recommendations of the author take into account the main problems that the region faces which were fully developed in the previous chapter. They are addressed mainly to the local actors and to the international community interested in creating stability in the region.

A. RECOMMENDATIONS

1. Future Status of Kosovo, Montenegro and Bosnia

Considering that Kosovo's Albanians reject in an overwhelming majority any form of continued state union with Serbia, it is understandable that the idea that Kosovo, Montenegro, and Serbia could in the future form a loose three republic federation is wholly unrealistic.

Referring to Kosovo's future status, the alternative of conditional independence proposed by the Kosovo commission is the best for three reasons: First, conditional independence permits the international community to insist that the proper standards be met for a period of time before all the benefits of political and economic international recognition are granted. Second, granting a status of conditional independence permits the international community to require from Kosovo a binding commitment that it will not seek to expand its regional borders. This will nullify a kind of overstated fear mostly expressed by the Macedonian and Serbian leaderships that independence for Kosovo would increase the threat of a "greater Albania". Third, conditional independence will allow Kosovo's government to demonstrate their willingness and ability to build up democratic institutions without being subject to either a loose federation or Serbian sovereign authority.¹⁷⁹

As for Montenegro, on 14 March 2002 the leaders of Serbia, Montenegro and the Federal Republic of Yugoslavia (FRY) signed an agreement in Belgrade to replace FRY

¹⁷⁹ *The Kosovo Report*, The Independent International Commission on Kosovo, Oxford: Oxford University Press, 2000, pp. 271-9.

with a new state community, a union of states to be called “Serbia and Montenegro”.¹⁸⁰ This agreement was the direct outcome of the European Union's determination to block Montenegro separatism and keep the two republics together. The object of the agreement is to establish a loose association in which the two member -states will enjoy virtually all the prerogatives of independence except those that depend on international recognition (e.g., UN membership). The republics will become fully responsible for their economies and internal security while the union will depend on the republics to fund its institutions: an assembly, a president, a council of ministers, a court, and the armed forces. However, thus far the immediate challenge of agreeing on the detailed content of their new union has seemed unrealizable. Being in that gloomy situation, the EU, in line with the 14 March agreement, should be ready to accept whatever solutions Serbia and Montenegro can agree upon for their future relationship, including the possibility of eventual separation. It should not seek to impose solutions.¹⁸¹ Among the options, the most attractive seems to be a single sovereign state, in the form of a “thin”¹⁸² federation or confederation where the central government will exercise only few powers.

As for the future status of Bosnia, the alternative of withdrawal, after the elections of the 5 October 2002, looks very remote. Even though the general elections were largely in line with international standards for democratic elections, they gave a majority, in three main ethnic groups, to the nationalistic parties. Therefore, disengaging from Bosnia would be an admission of failure in combating the forces of nationalism and communal hatred. Moreover, Bosnia could well revert to conflict and violent partition.

¹⁸⁰ The differences between Montenegro and Kosovo are stark. In Montenegro the questions of creating a loose federation with Serbia is divided along political lines and it has considerable support within communities. For example, a public opinion poll carried out by the Damar agency for the Center for Democracy and Human Rights (CEDEM), Podgorica, 12-19 January 2001, shows that only 36% of the population supports the alternative of a fully independent state. While among Kosovo's ethnic Albanians, support for independence is unanimous. *After Milosevic: A Practical Agenda for Lasting Balkans Peace*. International Crisis Group, p. 71, Information Available on the Internet: www.intl-crisis-group.org/projects/balkans/balkansregion/reports/A400472_01042001.pdf.

¹⁸¹ *Still Buying Time: Montenegro, Serbia, and the European Union*, International Crisis Group, 7 May 2002, p. ii, Information Available on the Internet: www.intl-crisis-group.org/projects/balkans/montenegro/reports/A400638_07052002.pdf.

¹⁸² The difference between the federation and thin federation is in the distribution of powers. In a thinner federation, the constituent regional entities exercise much more authority. *After Milosevic: A Practical Agenda for Lasting Balkans Peace*, p. 112.

As far as the option of partition, it not only rewards the war aims of Milosevic but also destroys the hope of a democratic, multi-ethnic Bosnia. This option would also run the risk of radicalizing a formerly secular population of Bosnia refugees, with grievous consequences for regional security.¹⁸³

Considering that the leadership of nationalist parties has presented a kind of moderation, the international community has to force the government, which would be constructed after the elections, to implement fully the integrative aspects of the Dayton Peace agreement, particularly the strengthening of central institutions and refugee return. The economic and political rewards of the coming government must be conditioned based on its concrete performance. While working within the Dayton framework, the Office of the High Representative and Bosnia government can go further with the structural adjustments into a post-Dayton arrangement. The main directions for reform of the Dayton structure would be strengthening the central government, reducing the substantial fiscal and administrative powers of the cantons, and enhancing the power of municipalities.

As for the security concerns of Macedonia, the elections of 15 September 2002 suggest that the country may have turned corner toward stability. Macedonian voters elected a government that has embraced the Framework Agreement brokered by the European Union (EU), the U.S., and NATO at Ohrid in August 2001. This agreement has not only ended the ethnic wars but has also pledged to manage inter-ethnic issues through consensus. However, cause for serious concern remains because much territory in ethnic Albanian dominated areas remain beyond the control of law enforcement. Moreover, mistrust between ethnic communities remains blatant.¹⁸⁴ That being the case, cooperation between NATO, the U.S., and the EU remains essential for the transition period that Macedonia has now entered. Specifically, a military presence such as NATO's Task Force Fox has contributed mightily toward establishing a secure atmosphere that has been crucial for return of those persons displaced by the conflict. Therefore, the international community (NATO and the EU) should continue to provide

¹⁸³ *After Milosevic: A Practical Agenda for Lasting Balkans Peace*, p. 158.

¹⁸⁴ *Moving Macedonia toward Self-sufficiency: A New Security Approach for NATO and the EU*, International Crisis Group, 15 November 2002, p. 2. Information Available on the Internet: www.intl-crisis-group.org/projects/balkans/macedonia/reports/A400823_15112002.pdf.

Macedonia with interim security assistance, in particular by maintaining a small military force in the country until the Macedonian government can ensure law and order throughout its territory.

2. Relieving the Negative Impact of Ethnic Issues

Reversing the negative impact of ethnic relations on the development of the region requires building reliable mechanisms that do not allow the transformation of political, social, economic, and interstate problems into ethnic conflicts. The effectiveness of these mechanisms calls for involvement at the domestic and international levels.

At the domestic level, an increasing sense of mutual responsibility and accountability between the ethnic groups can be achieved through satisfying the minorities' demands for education. A greater access to higher education will contribute to the stabilization of ethnic relations. Improving the economic situation and building democratic institutions are the long-term alternatives, which diminishes disparities across ethnic lines. They pave the road for withering of the concept of the nation-state and moving toward civil society.

At the international level, considering that the Western Powers have an extraordinary influence over the course of events in South Eastern Europe, their intervention is crucial for reducing ethnic conflict. For example, apart from NATO air strikes against Serbia because of its treatment of ethnic Albanians in Kosovo, the United States has also successfully intervened in the dispute between Hungary and Romania over the treatment of the Hungarian minority in Transylvania. American intervention made possible the signing of a bilateral treaty in 1996, a compromise on issues that appeared to be overwhelmingly divisive. "This example clearly illustrates that the potential of instability can be greatly diminished by the yearning of these states to become integrated into the Western community of nations symbolized by membership in NATO and the EU."¹⁸⁵

¹⁸⁵ Ivanka N. Atanassova, *The Impact of Ethnic Issues on the Security of South Eastern Europe*, Report Commissioned by the NATO Office of Information and Press, June 1999, p. 63, Information Available Internet: www.nato.int/acad/fellow/97-99/atanassova.pdf.

3. First the Transition and Second the Development

First to be done in any ex-communist country should be the fundamental institutional change from non-market and non-democratic institutions to markets and democracy. Without doing this first, it makes no sense to try to develop a society, while keeping “alive” the old communist institutions for the sake of development. This is of paramount importance in the case of the SEE countries which are famous for their corrupt and inefficient state employees. Bearing in mind that the transition could follow a high share of black-market activities, with corruption, bad and inefficient public governance, it should be quick and decisive. The development will follow as a natural result of the free market and democracy. Freedom works. Naturally, specific measures are to be taken to push for development.

4. Legality and Legitimacy

The existing legal systems leave a lot to be desired, but their implementation should be the focus of the efforts. At that level, corruption becomes the key problem. Transparency and simplicity of procedures are the main tools to be employed to combat corruption, all this in an environment of deregulation, liberalization, and business-friendly regulations.

Because governments in the region are often not seen as representative and responsive, the introduction of democratic rules and procedures does not bring in legitimacy immediately. Gaining or regaining legitimacy is an issue of building up credibility, which is often quite difficult. It requires a set of consistent and persistent policies that involve increased transparency, accountability, and similar characteristics of good governance. However, in any case, the former decisions of the democratic institutions should not change if they were lawful, including those cases where the political attitude may have changed later.¹⁸⁶ Therefore, measures to strengthen legitimacy should be adopted and consistently applied but without correcting an error with an error.

¹⁸⁶ For example, in Albania, the agricultural land was distributed to the farmers based on a law approved by the democratic parliament in 1992. Now many politicians are claiming that it was an error to distribute it to the farmers and that it should be taken away from the farmers and restored to the ex owners. The majority think that the decision of 1992 should be respected, and the ex owners should be compensated.

Under a market-based system, it is assumed that basic economic freedoms are secured, whereby the legal framework provides the basis for this. In this connection, four areas to be observed are ownership, contract, bankruptcy, and competition law.

- Ownership (property rights) is essential for the introduction of a market economy, and this part of legal infrastructure has been mostly provided
- Contract law is important in a market economy because it sets a framework within which all contracts must be drawn up and executed
- The bankruptcy act is aimed at establishing financial discipline and imposing hard budget constraints. Loss-making enterprises and insolvent firms cannot survive. Therefore, economically, their resources can be employed in a new way.¹⁸⁷
- Antimonopoly legislation should ensure competition and prevent enterprises from avoiding market discipline and taking advantage of unfair competition

5. Macroeconomic Stabilization

The establishment of macroeconomic stability is a precondition of both political stability and economic growth in the region. Many Balkan countries have experienced high rates of inflation, and exchange rates have demonstrated great volatility. These factors have constrained foreign investment and modernization in the region.

Macroeconomic stability depends largely on the consistency of economic policy. It requires achieving a proper mix between fiscal and monetary policies. With appropriate macroeconomic policies and strong political support, the SEE countries can maintain a real exchange rate that will contribute to a stable and strong currency. It means that:

- More stable conditions will encourage citizens of the SEE to keep their money in the banks of their countries and to invest it at home
- Foreign investors will have more confidence because economies of the SEE will send positive signals to Wall Street

6. Barriers to Trade and Investment

The SEE countries should get rid of formal and informal barriers. Development depends crucially on the business environment. If these problems are not addressed

¹⁸⁷ The methods of bankruptcy are explained in details in: Aghion, D., O. Hart and J. Moore, *The Economics of Bankruptcy Reform*, in O. Blanchard, K., A. Froot, and J. D. Sachs, *The Transition in Eastern Europe*, Vol. 2. Chicago and London: The University of Chicago Press, 1994, pp. 215-240.

simultaneously and decisively, the old barriers to trade and investment will persist and new ones will spring into being. Implementing legal regulation and legal protection is one way of combating the informal barriers.

It should be kept in mind that this vision for the reconstruction and development of SEE focuses mainly on the integration with the EU rather than on intra-regional coordination. We stress that opening to the EU will play its positive role only if the integration of the region in EU is a “real perspective”. It means that the EU should provide a clear deadline for the integration of the region.

7. Liberalization

Liberalization should be done in clear cut rules, without any unneeded complications and sophistications. The custom tariffs should be lowered to extremes, and they should be flat, without any sign of protectionism. Any attempt to complicate the rules will be converted into corruption. The intra-regional liberalization should be implemented simultaneously with the removal of the barriers to trade with the EU and with the creation of a single market.

8. Privatization

Privatization should be completed quickly, in large scale, and in depth. Considering that the SEE lack the experience of an able and honest state employee, it is clear that the running of the economy should not be left on the hands of these kind of employees. In the SEE economies, this should continue to be seen as the crux of the whole process of transition. Without hampering the speed, privatization must be regulated and transparent and market methods should be used as much as possible.

9. Structural Reforms

Structural reforms are a key element in increasing the competitiveness of the transition economies. They need to go ahead with privatization, social security, health care, education, and local government. This is the only way in which it will be possible to ensure a market-based allocation of resources through financial institutions in particular. Sustained growth will be possible only if transition to a market economy is intensive. Structural reforms will also have a profound and beneficial impact on the long-term sustainability of public finances. Furthermore, structural reforms will enhance

job creation. Labor market flexibility will be increased by adoption of a sound wage policy, trade liberalization, and the simplification of tax structures. If countries in the region decrease their current account deficits, increase exports, and raise domestic investments, the potential growth in GDP may help bring down the unemployment rate.

10. Fiscal Consolidation

Fiscal consolidation is crucial to increasing domestic saving, decreasing the current account deficit, and reducing the later impact of inflation. The mobilization of savings and their efficient allocation are priority tasks that should be fulfilled by domestic banks and non-banking financial institutions.

11. Infrastructure

In the region, it is a general agreement about upgrading the infrastructure. It must be kept in mind that, by themselves, infrastructure investments are not enough. They have to pay off. That is why they must be carefully chosen to enhance transportation and lower its costs. In the Balkans, however, it is clear that many of the links and routes do not exist not because there is no profit to be made in doing business across borders or regions, but for political or security reasons. Thus, currently existing infrastructure does not reflect the real possibilities of regional economic activity. Therefore, infrastructure investments are critical.

12. Environment

There is no fundamental difference between investments in infrastructure and in environmental projects. Both are vital for a developing region. Therefore, investments in the upgrading of the environment should be given the same priority as those in infrastructure.

13. Human Capital Development

If the acquisition of knowledge and education is not strengthened, the de-industrialization will be coupled with de-education and then this human capital advantage of the Balkan countries over the more typical developing countries will disappear. Knowledge and education correlate in various ways with the openness of a country or a region. Therefore, knowledge, education, human capital maintenance and development as well as openness to the outside world should be given priority.

14. Integration into Europe

Considering that the prospect of joining the EU holds a powerful attraction throughout the region, it is understandable that economic development and political reform have the ultimate goal of integrating the SEE into the EU. In the agenda of integration these two steps are critical:

- A free-trade area modeled after current arrangements with the European Free Trade Association (EFTA)
- A full common market modeled after the current European Economic Area (EEA) arrangements¹⁸⁸

15. The EU and the United States

Since after September 11, the financial contribution of the United States is likely to be restricted, the EU should take the lead on the region reconstruction.¹⁸⁹ The EU, to maintain the rhythm of reforms, should focus on efforts that have the best prospects for creating jobs. Moreover, the assistance for clarifying property rights, relaxing the rules on investment, and establishing standard rules for settling disputes is crucial to the success of the reforms. However, U.S. involvement, with minimal financial commitment, is essential to catalyzing the process and keeping Balkan reconstruction an urgent and continuing priority. If the U.S. will insist to limit its military engagement in the region, the EU will need to establish just how much it is prepared to do itself.

B. CONCLUSION

The Balkan are not damned by history to suffer perpetual conflict. De-Balkanizing is possible with the will of the Balkan peoples and the assistance of the international community in forging the costly foundation of the democratic institutions that have been laid. However, everything depends on the will of the Balkan people. They have to choose between the extreme nationalism and politics defined through the narrow prism of ethnicity which have brought only ruin to the people of Balkans, and the forces of peace which are engaged toward greater European integration, regional stability, and economic development. Considering that since April 2001, Slobodan Milosevic

¹⁸⁸ European Economic Area: EU Plus Norway and Iceland. [Morton Abramowitz](#), [Albert Fishlow](#), and [Charles A. Kupchan](#), *Independent Task Force Report: Reconstructing the Balkans*, Council on Foreign Relations, July 1999, p. 4, Information Available on the Internet: www.ciaonet.org/conf/cfr16/.

¹⁸⁹ Even before September 11, President Clinton, arguing that the United States assumed the primary burden of the air campaign, made clear that Europe will bear the major costs of reconstructing the region.

stands behind the bars, it seems that most citizens throughout the SEE are eager to leave war behind and live in peace. However, the foundations for a solid stability in the region are far from complete.

Besides its low level of development, the SEE is integral part of Europe. Therefore, it could expect committed and sustained assistance from the EU in its efforts to transition and achieve an acceptable level of development. Clearly, a regional commitment to transition and to regional integration is crucial, too. Additionally, it is important that the public and private agents inside and outside of the region work on setting up business-friendly institutions and implementing policies in order to open up opportunities for stability, investment, trade, increased employment and sustained growth. Western capitals have to avoid the dangerous tendency of focusing only on the issues that dominates the headlines. Slobodan Milosevic was not the only source of instability in the region.

Investigating the long-term, deep historical roots of conflicts has been important in this thesis for having a better understanding of the nature and the origin of the conflicts of the last decade. This and all the errors, mistakes, and missteps of the past decade provided valuable lessons for developing this strategy, which shows the way for peace to triumph over division and hatred.

APPENDIX. SOUTH EASTERN EUROPE: MAIN MACROECONOMIC INDICATORS

Appendix 1 South Eastern Europe: Main Macroeconomic Indicators

	1997	1998	1999	2000	2001
Real GDP Growth (percent change)					
Albania	-7.0	8.0	7.3	7.8	7.3
Bosnia and Herzegovina	36.6	9.9	9.9	5.9	6.2
Bulgaria	-7.0	3.5	2.4	5.8	4.5
Croatia	6.6	2.5	-0.4	3.7	4.0
FYR Macedonia	1.4	3.4	4.3	4.3	-4.0
Romania	-6.1	-5.4	-2.3	1.6	4.5
FR Yugoslavia	10.1	1.9	-15.7	5.0	5.0
<i>Median SEE</i>	<i>1.4</i>	<i>3.4</i>	<i>2.4</i>	<i>5.0</i>	<i>4.5</i>
<i>Median CEEC-8 1/</i>	<i>6.5</i>	<i>4.5</i>	<i>1.5</i>	<i>4.5</i>	<i>4.0</i>
End of period inflation, percent					
Albania	42.1	8.7	-1.0	4.2	3.0
Bosnia and Herzegovina	...	5.6	14.0	16.1	...
Bulgaria	549.2	1.7	7.0	11.4	4.0
Croatia	3.8	5.4	4.4	7.4	4.5
FYR Macedonia	3.2	-2.4	2.6	6.1	6.2
Romania	151.4	40.6	54.8	40.7	29.0
FR Yugoslavia	...	44.5	49.9	113.5	35.0
<i>Median SEE</i>	<i>42.1</i>	<i>5.6</i>	<i>7.0</i>	<i>11.4</i>	<i>5.4</i>
<i>Median CEEC-8 1/</i>	<i>10.0</i>	<i>6.5</i>	<i>3.8</i>	<i>4.9</i>	<i>3.9</i>
Fiscal deficit, in percent of GDP 2/					
Albania	-12.8	-10.4	-11.4	-9.1	-9.5
Bosnia and Herzegovina 3/	...	-2.2	-3.3	-4.0	...
Bulgaria	-2.5	1.0	-1.0	-1.1	-0.5
Croatia	-2.0	-3.0	-7.4	-5.7	-5.3
FYR Macedonia	-3.0	-1.7	0.0	2.5	-7.8
Romania	-5.2	-5.5	-3.8	-3.7	-3.5
FR Yugoslavia 4/	...	...	...	-0.2	-2.8
<i>Median SEE</i>	<i>-2.5</i>	<i>-2.6</i>	<i>-3.5</i>	<i>-3.7</i>	<i>-4.4</i>
<i>Median CEEC-8 1/</i>	<i>-1.9</i>	<i>-2.8</i>	<i>-3.6</i>	<i>-2.9</i>	<i>-2.2</i>
Current account deficit, in percent of GDP					
Albania	-12.1	-6.1	-7.2	-7.0	-7.5
Bosnia and Herzegovina	-42.0	-23.7	-21.0	-19.0	-20.3
Bulgaria	4.4	-0.5	-5.3	-5.8	-6.7
Croatia	-11.6	-7.1	-6.9	-2.1	-3.8
FYR Macedonia	-7.6	-9.7	-3.4	-3.1	-14.7
Romania	-6.1	-7.1	-4.1	-3.9	-6.0
FR Yugoslavia	-9.4	-4.8	-7.5	-7.6	-16.4
<i>Median SEE</i>	<i>-9.4</i>	<i>-7.1</i>	<i>-6.9</i>	<i>-5.8</i>	<i>-7.5</i>
<i>Median CEEC-8 1/</i>	<i>-5.6</i>	<i>-7.0</i>	<i>-4.8</i>	<i>-5.3</i>	<i>-5.3</i>

Source: WEO, IMF Staff estimates and projections

1/ CEEC – 8 are: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia and the Slovak Republic

2/ General government budget balance, where available.

3/ Includes State and entity budget.

4/ Consolidated general government accounts are unavailable prior to 2000

Appendix 2 South Eastern Europe: External Trade

(millions of US dollars, unless otherwise indicated)

	1997	1998	1999	2000
Export of Goods				
SEE	21873	22327	20698	23975
Albania	167	205	275	256
Bosnia and Herzegovina	575	697	649	732
Bulgaria	4809	4194	4006	4812
Croatia	4210	4604	4395	4567
FYR Macedonia	1235	1292	1192	1319
Romania	8431	8302	8503	10366
FR Yugoslavia	2447	3033	1677	1923
Imports of Goods				
SEE	33777	50296	31036	34813
Albania	685	826	1121	1070
Bosnia and Herzegovina	2333	2656	2502	2348
Bulgaria	4488	4574	5087	5988
Croatia	9407	8752	7693	7771
FYR Macedonia	1623	1711	1601	1875
Romania	10411	10927	9736	12050
FR Yugoslavia	4799	4849	3296	3711
Trade openness 1/				
SEE	78.6	72.5	74.8	86.9
Albania	46.5	41.3	55.2	59.3
Bosnia and Herzegovina	102.5	98.4	78.2	77.1
Bulgaria	126.4	97.7	99.6	122.1
Croatia	97.7	88.8	89.2	95.8
FYR Macedonia	87.9	99.8	98.0	114.4
Romania	65.5	56.1	62.6	73.7
FR Yugoslavia	50.9	66.4	56.0	81.2

Source: IMF and National Authorities

1/ Exports plus imports (including services) scaled by GDP.

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